QUESTION 4: DO THE RESPONDENTS AGREE THAT THE TABLES WITH QUALITATIVE INFORMATION PROPOSED CAPTURE PROPERLY THE INFORMATION THAT INSTITUTIONS SHOULD PROVIDE?

Elucidate supports the inclusion of disclosures on Social, Governance and Risk management in the broad ESG framework, both for reasons of completeness and to move away from a silo-based approach, as the European Banking Authority (EBA) stressed when first introducing the implementing technical standards (ITS) regime in 2019[1]. A strong focus on Social and Governance issues is an essential component of any commitment to sustainability.

However, solely qualitative disclosure on Governance is not consistent enough and does not provide sufficiently objective and accurate information to the public. Rapid advances in data availability, analysis and storage mean that increasingly entities will have the inputs needed to also generate quantitative disclosures for Governance risk.

Elucidate is of the view that quantitative governance risk disclosure will add significant value to reporting standards. We recommend that the European Banking Authority includes quantitative disclosures in the ITS on Pillar 3 disclosures, in particular as regards risks pertaining to money laundering and financing terrorism. These risks are a) directly **related to environmental risks**[2] and therefore essential to building a comprehensive framework for ESG disclosures, as well as providing for more **policy coherence** within the EBA and in the EU, and **b) providing greater consistency, reliability and comparability.**

a) ML/FT risks are intertwined with environmental and social risks:

According to Article 3 of the Taxonomy Regulation (EU) 2020/852) (EU Taxonomy), economic activities should "**do no significant harm**" to any other environmental objectives. **Environmental crime** constitutes a money laundering predicate offence

[1] https://www.eba.europa.eu/eba-launches-consultation-on-comprehensive-pillar-3-disclosures

[2] Directive (EU) 2018/1673 of the European Parliament and of the Council of 23 October 2018 on combating money laundering by criminal law: http://data.europa.eu/eli/dir/2018/1673/oj

in accordance with **Directive 2018/1973 of the European Union** and induces harm to the Taxonomy objectives, especially Objectives 3 and 6.

ML/FT risks threaten the EU's natural capital and biodiversity, therefore obstructing the European Commission's endeavor to make the European financial system more sustainable [3]. This is why we believe that ML/FT quantitative disclosures should be considered to achieve **policy coherence** across the EBA responsibilities and in the EU as a whole.

Regarding social risks and in particular potential impacts on human rights, we draw the attention of the Commission to Global Reporting Initiative *GRI 205* addressing corruption and **financial crime practices** including bribery, facilitation payments, fraud, extortion, collusion, and **money laundering**. In this Standard, the GRI recognizes that these practices are **broadly linked to negative impacts such as poverty, damage to the environment, misallocation of investments and abuse of human rights**[4].

b) **Quantitative disclosures on Governance and Risk Framework help achieve greater consistency, reliability and comparability**

Disclosures must adequately inform investors as well as the general public. This implies **standardized disclosure providing both consistency and comparability.**

Like other ESG risks, ML/FT risks and impacts often are material and should therefore be incorporated into a comprehensive disclosure regime. Weak governance can lead to weak financial performance, while money laundering failings can impact the cost of capital[5].

---

[3] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52021DC0188&from=EN

[4] https://www.globalreporting.org/standards/media/1006/gri-205-anti-corruption-2016.pdf

[5] https://www.spglobal.com/en/research-insights/articles/exploring-the-g-in-esg-governance-in-greater-detail-part-i

Elucidate GmbH · Kolonnenstraße 8 · 10827 Berlin

Requiring companies to make quantitative disclosures on Governance and Risk management would make disclosure frameworks more impactful. A set of standardized risk metrics will draw on the increasing amount of existing data in the governance field, and provide the public and investors with a more objective view on ML/FT risks. We are happy to share with you Elucidate' contribution on this subject[6].

In our view, the EBA should work towards standardized reporting with respect to the G factor, and include it in the ITS framework for ESG Disclosures. The long-term goal should be for entities to regularly **report risk levels against quantitative metrics across all factors of ESG.**

In its discussion paper on management and supervision of ESG risks for credit institutions and investment firms[7], the EBA states the importance of a **risk management approach that supports the monitoring and control of ESG risks**, including **sustainability targets and limits** as well as changes to the organizational set-up of the institution. Quantitative risk metrics allow for setting targets and exposure limits, and for an effective monitoring of risk levels.

By working towards a measurable benchmark, the EBA would also **support a level-playing field in ESG reporting**. These benchmarks would enable smaller entities with fewer resources to also provide quantitative disclosures on Governance risks.

In 2019, the EBA stressed that the list of ESG indicators and metrics should be **revised to reflect the increasing understanding of relevant sustainability concepts and potential changes in the regulatory framework and society's preferences**[8]. We believe that adding ML/FT indicators is in line with the introduction of environmental crime in the European AML/CFT legislation, and to mobilize the financial industry against the huge impact ML/FT has on society, the economy and the environment.

---

[6] Elucidate's contribution is outlined in this paper:
https://medium.com/elucidategmbh/financial-crime-risk-metrics-the-missing-piece-of-the-anti-money-laundering-puzzle-2be1073e66eb

[7] EBA Draft Implementing Technical Standards On public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013:

[8] Id.

elucidate
EVALUATING DATA, ILLUMINATING RISK

Elucidate GmbH · Kolonnenstraße 8 · 10827 Berlin

Sincerely,

Max Heywood
Head of Public Sector Partnerships

Elucidate is a financial crime risk management company enabling banks to benchmark and price FinCrime risk through risk assessment, data analysis and scoring. Our core benchmark, the Elucidate FinCrime Index (EFI) leverages data-analysis and machine learning to score and price risk, providing a comparable and comprehensive view of a bank's own risk, as well as that of its counterparties.