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Inclusion of ESG data in EBA taxonomies

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Eurofiling | 14th June 2023



Outline

- 1. Disclosure requirements on ESG risks applicable to credit institutions**
- 2. Pillar 3 Data hub**
- 3. Supervisory reporting on ESG risks**

1. Disclosure requirements on ESG risks

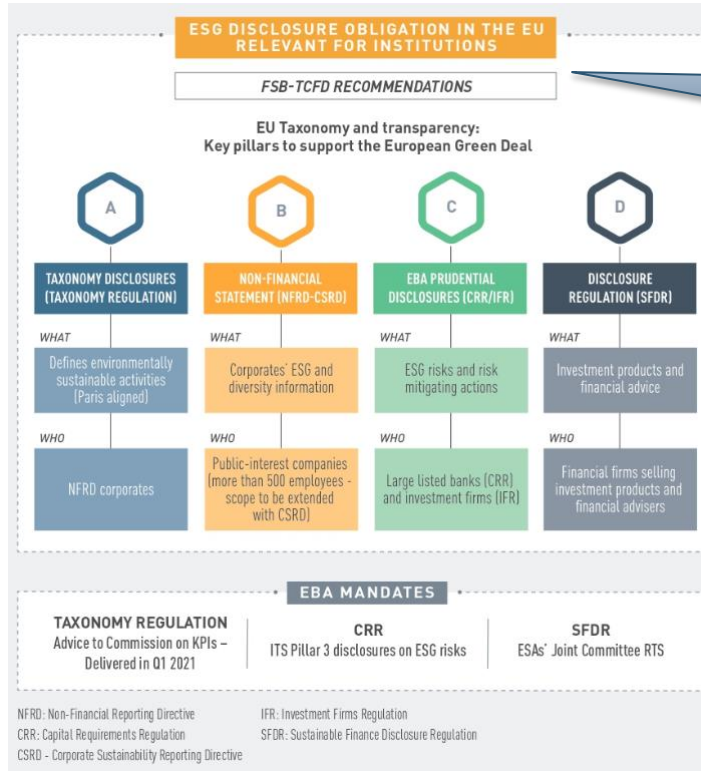
Market discipline as a tool to drive changes towards a more sustainable economy...

Transparency is a key driver of market discipline in the financial sector, reducing asymmetry of information between institutions and stakeholders.

Comparable disclosures allow all stakeholders to understand how institutions are contributing to the objectives of climate change and how risks are being managed.

- Commission's 2018 Action Plan on Sustainable Finance triggered several legislative initiatives on ESG disclosures with impact on institutions;
- One of the objectives is to foster transparency in the financial system;
- Direct mandates to the EBA.

1. EU ESG disclosures – Credit institutions (1)



Initiatives at international level – ISSB and BCBS

→ International Sustainability Standards Board (ISSB):

- Developing sustainability reporting standards at international level (“brother” of the IASB);
- Following different timeline from the EFRAG one;
- Currently redeliberating the proposals based on feedback on the Exposure Draft;
- Public consultation ended in July 2022.

→ Basel Committee on Banking Supervision (BCBS):

- Currently developing a consultative paper on Pillar 3 Framework;
- Active role of the EBA / Co-chairing the relevant WS;
- Timetable very much aligned with the ISSB one, EBA Framework taken as “inspiration” for this work.

1. EU ESG disclosures – Credit institutions (2)

Pillar 3 Framework

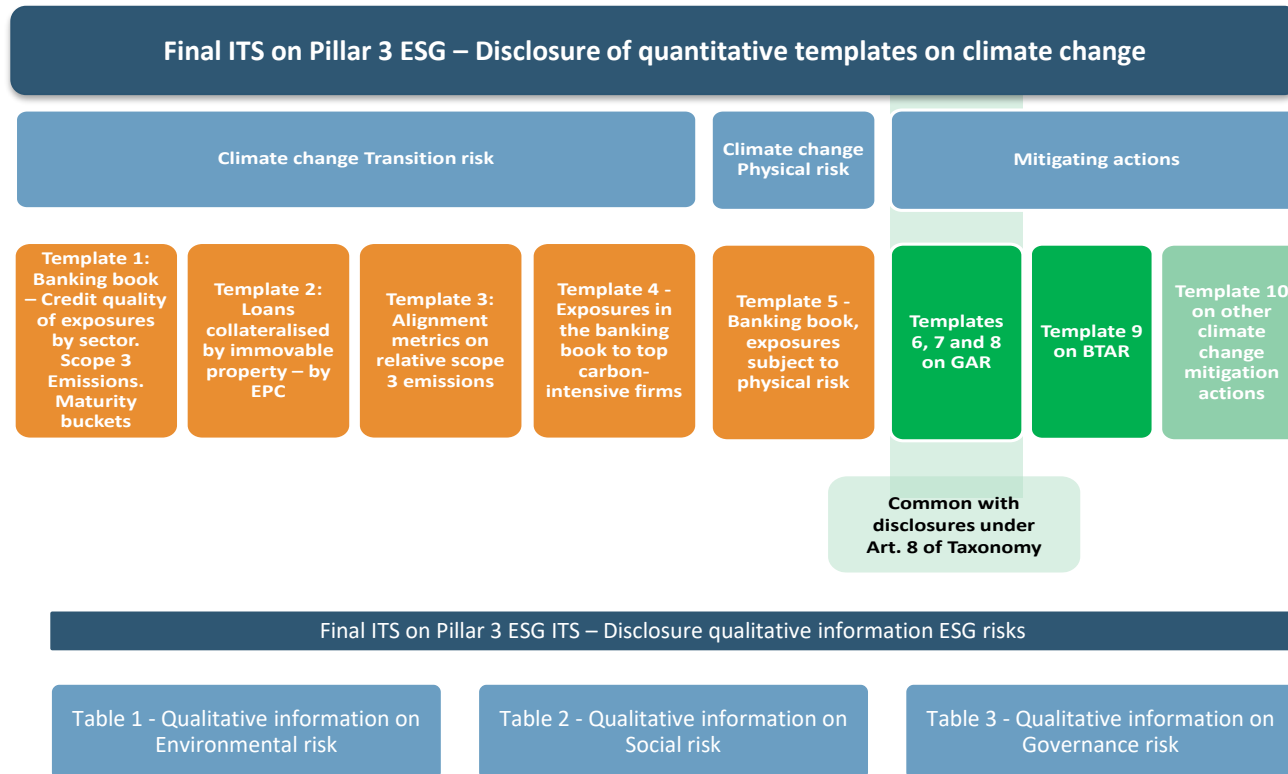
- Article 449a CRR: requirement for large institutions with instruments traded in an EU official market to **disclose prudential information on ESG risks**, including transition and physical risk;
- Article 434a CRR: EBA to develop implementing technical standards (ITS) with **uniform formats and associated instructions** for these disclosures;
- ITS already adopted by the Commission;
- To be reviewed in the short term.

EU Taxonomy Regulation

- Establishes a common classification system of environmentally sustainable economic activities at EU level;
- Article 8 requires the disclosure of information on **how and to what extent undertakings⁽¹⁾ activities are associated with economic activities that qualify as environmentally sustainable**;
- In July 2021, the Commission published the Delegated Act specifying content and presentation, following EBA advice.
- Currently under review, extended disclosures to other environmental objectives.

⁽¹⁾ Subject to Non-Financial Reporting Directive (NFRD)

1. EBA Pillar 3 ITS on ESG risks - Overview



*GAR – Green Asset Ratio; BTAR – Banking Book Taxonomy Alignment Ratio

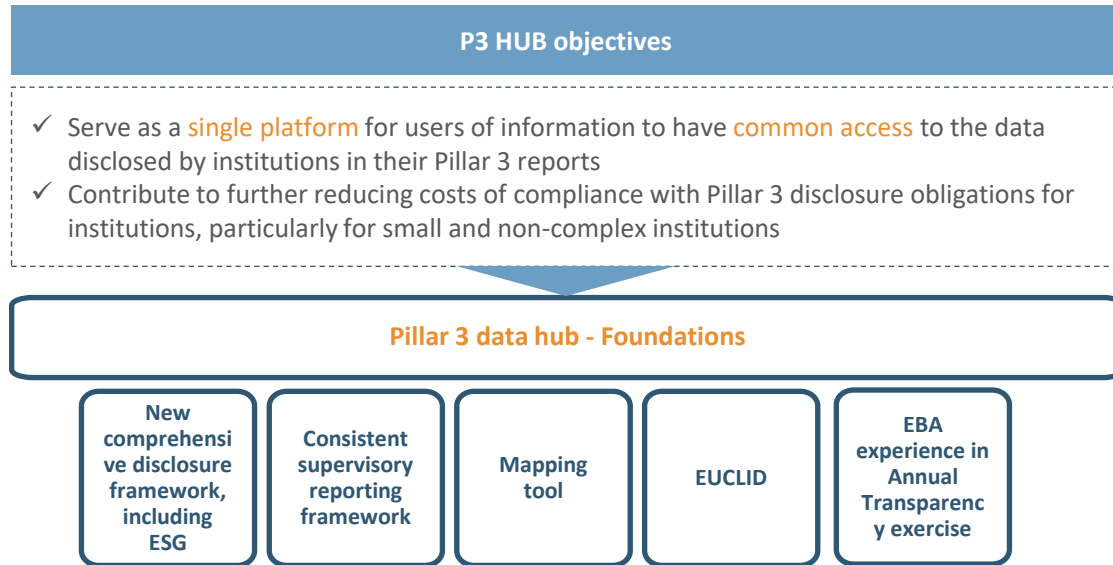
1. EBA Pillar 3 ITS on ESG risks - Timeline



Timeline (phased-in approach)



2. Pillar 3 Data Hub - overview



Using technology and innovation for building a common European Pillar 3 Data Hub improving access to information and use of data

3. Supervisory reporting on ESG risks

Art 430 (h) CRR3

- ✓ Requirement for institutions to report data on ESG risks
- ✓ Applicable to all institutions in a proportionate way

- ✓ The EBA mandated to develop ITS on supervisory reporting for this data
- ✓ Legal text still under negotiation but EBA launching the work now

Building the ITS

ESG reporting will be developed as part of the ITS on reporting

Assessing the impact of ESG drivers on existing risk categories

COREP

- **Pillar 3 templates on ESG as a basis for building the ITS on ESG reporting**
 - ✓ Building on the existing P3 definitions and relying on the modelling/definitions of the upcoming ad hoc data collection
 - ✓ Assessment of further risk dimensions
 - ✓ Assessing the need of further breakdowns

- Possible Pillar 1 and Pillar 2 impacts: reflect the ESG impacts on other risks
 - ✓ ESG risks are not separate risk categories but instead are drivers for the existing risk categories
 - ✓ Amendments of the existing templates such as those related to CR, MR, OR

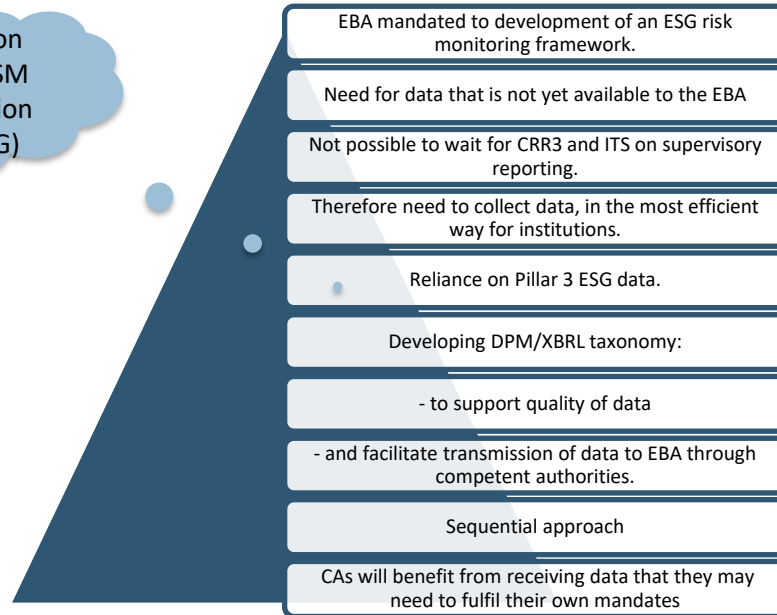
FINREP

- Impacts on FINREP: to be further analysed if further breakdown or amendments are needed

Timeline: Consultation Paper by Q2 2024 – *tentative. Application not before end 2025*

3. EBA ad hoc data collection on ESG risks

Coordination
with ECB/SSM
data collection
(STE on ESG)



Publication of DPM and technical package

1 June 2023 (v3.3 reporting framework)

First reference date for advanced ad-hoc data

31 Dec 2023

➤ Need to bridge the data gap until CRR3

✓ *ESG ad hoc data collection while ITS on supervisory reporting is applicable*

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