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EBF feedback on the EC's Inception Impact Assessment on the Commission Delegated Regulation on taxonomy-related disclosures by undertakings reporting non-financial information.

Key messages and proposals

- It is key that Article 8 disclosures by banks are meaningful and add real value showing that banks are able to assess their climate exposures and that these disclosures give insight in the key role that banks play in the Green Deal financing the transition to a low carbon economy and sustainable society.
- Banks will have to rely on the willingness and the ability of clients to deliver relevant information. There is a need for a single and well-defined framework so that the metrics can be comparable. Financial institutions should only be required to report sustainability-related information on their portfolios/activities, if sufficient and reliable information is available, supported by mandatory taxonomy aligned disclosures from non-financial entities. The Article 8 of the Taxonomy Regulation should therefore align the reporting obligations with the NFRD and the Disclosure Regulation, considering that businesses must first meet these requirements before financial institutions are able to report. It might be possible to introduce a phase in approach, so that KPIs are to be reported by the financial institutions with a time-lapse.
- Banks should not be responsible for collecting information that can be collected by authorities. Data collection should be harmonized, based on a common reporting standard and common nomenclature to enable automatization, via a central data repository to ensure efficiency.
- Availability of data is essential, therefore initially a limited number of concrete key datasets should be agreed. We have identified the information need of banks and proposing initial taxonomy related KPIs. We are proposing corporates self-assesment of compliance with thresholds and metrics of the EU Taxonomy and development of a simplified reporting for SMEs.
- To align in the best way the disclosure by corporates, asset managers, insurers and banks, we are also proposing to develop a set of kPIs that should be common with other regulations covering ESG disclosures (i) GHG emissions, ii) disclosure of material information enabling the assessment of physical risk, transition risk or other specific categories of ESG risk, ii)the management of environmental- and social-related risks and opportunities). However the relevance of the Scope 3 emissions in the banking sector should be further discussed, reviewed and probably replaced by a more relevant metric.

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Classification : Internal

- The 'green asset ratio' proposed by Article 8 should in our view be a proportion of the volume of Eligible Financial Assets (EFA) that are EU taxonomy-aligned /on Total Eligible Financial Assets, with EFA defined as all asset classes for which the EU taxonomy is relevant and can be applied. This would result in the following banking products included in the scope of the EFA, taking further into account the data availability (initial focus on EU counterparties within the scope of the NFRD) and distinguishing between existing and new exposures**:**

    - Corporate loans and/or project finance facilities with specified use of proceeds aligned with EU taxonomy
    - General purpose loans to companies undertaking taxonomy compliant activities
    - Performance bonds to support a taxonomy aligned activities
    - Financial guarantees to support the payment obligations arising from financing a taxonomy-aligned activity

- Transition requires more flexible and different sustainable goals to be set. What really matters is not so much the current compliance with the taxonomy but the strategy of the company to adapt to 2ºC or even below 2ºC" scenarios. A classification of clients/ companies based on their transition journey, rather than a binary green/non green, would provide a dynamic key information and provide a better view on whether/how public and private strategies align and on the contribution of the bank to the transition efforts. To increase participation in this market, it is fundamental to develop a standard in terms of transparency and the main characteristics to be respected by the issuers (and in terms of KPIs for the measurements of the achieved result.

EBF detailed feedback on the EC's Inception Impact Assessment on the Commission Delegated Regulation on taxonomy-related disclosures by undertakings reporting non-financial information.

The availability of ESG data is essential to ensure an adequate uptake of financing of environmentally sustainable economic activities and transition towards sustainable activities. Financial market participants need a number **of key very concrete datasets** from undertakings under the NFRD scope[1], as well as from public databases and other sources. This is also relevant with regards to taxonomy related ESG data for disclosure requirements under the SFDR.

Ensuring an appropriate framework in terms of data is also critical to avoid redundancy in data collection and reporting.

Non-financial companies need clarity to understand how to correctly determine the extent to which their economic activities can be considered environmentally sustainable.

Banks need **ESG data** from their clients in order to:

- Tag economic activities compliant with the EU Taxonomy
- Assess the part of their loans compliant with the taxonomy for future mandatory disclosure purposes under NFRD, Taxonomy Regulation and CRR2 Pillar 3 requirements.
- Disclose, as any corporate, the information necessary for Assets Managers, Insurers and financial advisers to meet their disclosure requirements under the SFDR and Taxonomy Regulation.

In addition, ESG data are needed to:

- Enhance capital flows towards environmentally sustainable projects and activities and transition towards sustainable activities
- Product development
- Provision of Sustainable Loans (as defined by LMA that identifies two main categories: green loans/with use of proceeds and sustainability linked loans/with no use of proceeds but with agreed KPI goals)
- Labelling based on common standards
- EU Green bonds, green covered bonds, green securitisations or social bonds.

While not in the scope of the consultaion, we would like to note tat the EU Taxonomy is not suitable to be used by banks in a mandatory manner for ESG Risk Management. The ESG risk assessment methodologies follow a completely different approach, based on:

- Data on the whole counterparty (e.g. their public / quantified/ dated commitments to decrease carbon emissions…)

[1] Please note that we believe SMEs should be included in the NFRD scope based on a minimum set of simplified reporting obligation

- Data on the sectors and the factors that put financial pressure on them: direct and indirect emission costs, low carbon capex needs/necessary investments, and sensitivity of the revenues of companies in these sectors for (positive and adverse) effects of climate change (adjusted net income)
- Data on geographic locations of physical assets that serve as collateral for financial instruments
- Impact of this on the exposure of banks made visible in (partially standardized) climate risk heatmaps

Therefore, a separate discussion should take place in parallel between the European Commission, EBA and the banking industry on banks ESG risk/climate risk management and what data, classification and methodologies are appropriate. For example, the link between climate KPIs such as CO2 emissions and underlying financial risk have to be properly understood in relation to different time horizons.

Classification : Internal

The Article 8 is rightly distinguishing obligations for non-financial undertakings and financial undertakings given their specificities and business lines of financial institutions – asking the same requirements for financial undertakings and non-financial undertakings would not be applicable.

1. Information need from non- financial undertakings for tagging taxonomy compliant activities

The Taxonomy Regulation already specifies that, in particular, non-financial undertakings under the NFRD are legally obliged to disclose:

- The proportion of their turnover derived from products or services associated with environmentally sustainable economic activities.
- The proportion of their total investments (CapEx) and expenditures (OpEx) related to assets or processes associated with environmentally sustainable economic activities.

In the case of the EU Taxonomy aligned activities, for banks to be able to tag the amount of financing being provided, companies should provide a **self-assessment** that specifically addresses compliance with thresholds and metrics detailed in the Taxonomy.

Depending on the NACE codes of the financed activities (whilst it should be noted that often banks may finance a treasury dedicated entity), banks may need information about the non- financial company's environmental performance with respect to the relevant metrics.

For example:

- For Taxonomy-compliant economic activities that non- financial companies engage in and the products they produce, companies should include a "self-assessment" exercise that shows whether each activity they undertake is compliant or not with the Taxonomy – it should be referenced to metrics in the taxonomy and indicate where they stand compared to the threshold.

  This self-assessment is important to:
    - avoid misinterpretation of the data when used by banks;
    - place the liability over the data on the companies, not on the users of the companies' data;
    - facilitate the automation of the data collection and automation process.

  The level of granularity of the data is important – a regional split for multinational companies should also be included

- The environmental characteristics of the respective activities and products (including process and product certifications, environmental product claims or declarations – EPD - and life cycle analysis declarations - LCA) or the products' environmental applications,

- Associated revenues and expenses of eligible products or activities (as a percentage of the total) and the associated sustainable assets (as a percentage of the total).
-
- A self-assessment on the "do no significant harm" of the activities
-
- Other information that may be useful, for example the alignment of the company with ESG initiatives or commitments.

Taxonomy-related KPIs should be flexible enough to anticipate the evolutions of the Taxonomy that are already planned and enable correct application of the Taxonomy once this is clear. This might be harder than expected across different asset classes and within those asset classes for the portion of the financing or investment that are truly sustainable. Room needs also to be given for future innovation.

Proposed initial taxonomy-related KPIs for environmental issues

- **The proportion of turnover, CapEx and OpEx** aligned with the technical screening criteria (TSC) under the EU taxonomy;
- Among the proportion of activities aligned with the TSC, the **proportion that fall under the notions of "low carbon**" (or "own performance" in the final TEG report), enabling and transitional activities as recommended by the TEG in its final report;
- Among the proportion of activities aligned with the TSC, **the proportion contributing to each environmental objective** as recommended by the TEG in its final report;
- **The alignment with do no significant harm on other environmental objectives and the minimum social safeguards**

A **simplified reporting should be envisaged for SMEs** to balance the cost of collecting data and reporting for SMEs and to mitigate the risk of financial exclusion that is already starting to grow in some areas, because of the increased cost of compliance and regulation.

In addition, many banks have already implemented a holistic ESG / sustainability risk assessment approaches. They might want to expand this approach which may lead to specific additional information need such as:

- **Scope 1 Scope 2 and**

- **Scope 3 GHG emission**

  Banks cannot provide the scope3 data of their portfolios before scope 3 data of good quality are provided by non-financial undertakings. Carbon foot printing disclosures are frequently limited to Scope 1 and 2, where there is an agreed calculation methodology; they generally represent less than 20% of a company's emissions across all major climate relevant sectors (except for utilities and

materials manufacturing.

Moreover, Scope 3 emission disclosure faces the difficult question of how to allocate the responsibility for Scope 3 emissions without double counting across sectors of the economy. For example, are emissions associated with oil consumption a responsibility for the oil & gas industry or the auto sector? Scope 3 emissions are not harmonized, difficult to estimate and carbon footprinting may not give the appropriate insight for decision-making of financial institutions.

To address the current lack of data and difficulties to calculate scope 3 emissions, a phase in by sectors for scope 3 emissions could be considered (such as standard emission factors), to come into force if and when the methodologies for banks are developed and agreed and disclosures are adequately standardised. Such phase in approach could be developed, starting with the Energy and Mining sectors followed by Transportation, Construction, Buildings, Materials and Industrial sectors, finally followed by all other sectors.

Please see below our views on the use of Scope 3 emissions in the banking sector.

- **Energy efficiency of buildings**
  - There are various ways to express energy efficiency (site energy demand/primary energy demand, CO2 emission intensity etc). It is important to at least understand the different metrics or ideally harmonize the use of metrics for data and reporting.

- **Climate-related risk in the business, and in the supply chain**:
  - "physical" risk the business poses to the environment or is exposed to (Corporates could provide geo-localisation data).
  - "transition" risk for the companies´ business model from the transition to green/C02 neutral economy which can be technological, social, political or legal, market and reputational (as per the TCFD recommendations) and which enables comparison with banks' own analysis

  We suggest to follow the TCFD guidelines regarding the sub-categories, of the Physical & Transition climate related risks.

  Time is an important dimension as some changes materialize slowly over time. This time span determines the influence on the cash flow profiles of customers.

- **Climate and environmental strategy of the company**.
  - Has the company designed and implemented a low carbon/ net zero strategy and what is the governance around this strategy?
  - Is it science based and does it include an impact assessment on business model, supply chain, etc?
    - Quantified and dated commitments in order to decrease their carbon emissions or meet EU Taxonomy thresholds? However, it has to be noted that it has to be considered how realistic it is to request non EU clients to comply with EU climate and environmental standards

- What are the related capex and other investments?
- If any, results of testing / internal (and external) review?

This information is particularly important for further development of the sustainability linked loans.

- **Other environmental risks**
  - Adherence to official regulation and environmental requirements
  - Negative consequences for the environment in the form of contamination, use of scarce natural resources, emissions etc.

- **Social factors, including the minimum safeguards identified in the taxonomy,** for example:
  - Policy or routines for H&S
  - Are the working and production methods considered safe for life and health?
  - Do employees have wage compensation in line with national standards on minimum wage?
  - Does the company meet national requirements on working hours?
  - Is there any risk that the company is involved in discriminating behavior, forced- or child labour, or anything that might violate human rights directly or by sub-contractors?
  - Does the company have policies to enhance diversity, inclusion and equality of opportunities?
  - Gender diversity
  - Training and re-skilling.

- **Governance**
  - If it is publicly traded, does the company comply with the G20-OECD Principles of Corporate Governance, notably on shareholders rights, disclosure and transparency, board composition and responsibilities?
  - Does the company have an ESG strategy?
  - Does the company have ethical guidelines and anti-money laundering programs, and are these actively followed up?
  - Fiscal integrity

The disclosure of data needed for tagging the activities with the taxonomy should be provided in the form of templates and not (only) in free text format. In those templates the data should be broken down at the level of single economic activities/business lines listed in the taxonomy (and everything else aggregated) and therefore the templates should be specific for each economic activity on a consolidated basis.

The success of the EU taxonomy and further developments will depend on its operationality and potential to be used in an automated way. **Clear tagging of green activities linked**

to the codes already used by banks, their clients and EU Member States and in national laws is lacking. To classify and report on green expenditures, further changes will be needed in order to align reporting on Environmental Goods and Services Accounts, taxonomy compliant activities and NFRD reporting in a coherent manner. Please see EBF proposal on the usability of the taxonomy on the EBF website: https://www.ebf.eu/sustainable-finance/usability-of-the-taxonomy-ebf-responds-to-european-commissios-technical-expert-group-consultation/

A common nomenclature_that woudld be used by companies to structure their disclosures, enable the automation of the data extraction and aggregation of sustainable finance lending is also needed to set up an efficient IT process". It will also help with the automation of the "green asset ratio" assessment.

No such nomenclature exists and, although EU member states do have that kind of information in a structured way it is incomplete and not EU taxonomy based (please see also our proposal for central database below).

Manual reporting, aggregation and disclosure of sustainable finance is not feasible, it is prone to errors and too expensive. **A harmonized data collection approach with a clear nomenclature is needed, acknowledging that the Taxonomy NACE approach is incomplete as some sub-activites lack a NACE code**. The creation of a EU centralized data repository is is desirable..

Please see a suggestion for a data collection template -pages 16-19 (table 2) at the following link: https://publications.jrc.ec.europa.eu/repository/bitstream/JRC119403/jrc_eba_workshop[2]_-_report_final_version.pdfhttps://publications.jrc.ec.europa.eu/repository/bitstream/JRC119403/jrc_eba_workshop_-_report_final_version.pdfhttps://publications.jrc.ec.europa.eu/repository/bitstream/JRC119403/jrc_eba_workshop_-_report_final_version.pdf

[2] Please note that the author is the chair of the EBF Taxonomy WG

2. Indicators on environmentally sustainable economic activities for financial undertakings (banks)

a) General considerations

The Article 8 of the Taxonomy Regulation should align the reporting obligations with the NFRD and the Disclosure Regulation taking into account the concerns of financial institutions, primarily the lack of data and the absence of mandatory disclosure requirements for some bank customers.

It is very important that banks and other financial institutions are not becoming responsible for non-financial data collection that can also be collected centrally by EU Member States or EU institutions.

Many companies have business relations with up to 30 banks. If all these banks start to collect non-financial information individually, such process will be very inefficient and costly in financial terms and resources for both the banks and the companies. There will also be different interpretations of the same data by different banks. Such reporting is of low added value in any case since banks would simply collect and aggregate third party data. **This is not a meaningful role for banks.**

Non-financial data collection must therefore preferably be central whenever this is possible. EU Member States for example collect information from individual companies via customs forms and for statistics including the economic-environmental accounts also via questionnaires and phone calls. **When the non-financial data are available in a system then banks can simply run a query and match their client database with the non-financial information and then report under Article 8.** If that is not possible then regulators could do this matching and provide banks with the outcomes, taking into account that data from non-EU corporate still remain an issue.

Please see our proposal for a central data register in section 4.

Alternatively, but less efficient, companies can be required by the EU to disclose Article 8 data via a clear data protocol (such as XBRL) so that banks can collect these data in an automated way and use it for their own reporting. This will only work when enough companies report.

It is key that article 8 disclosures by banks will add real value and that is it meaningful. In the end it must show that banks are able to assess their climate exposures and that these disclosures give insight in the key role that banks play in the Green Deal financing the transition to a low carbon economy and sustainable society.

It is also key to remind that banks' non-financial reporting is only possible once they have their clients' non-financial information.While banks will be making efforts to obtain as much information as possible, they will have to rely on the willingness and the ability of clients to deliver such information.

The time sequence is particularly relevant in order to fulfill this requirement. Once the client´s data is available, banks will need time to collect this data, aggregate it, analyse it and preparae their own reporting. **Therefore it seems necessary that banks´reporting requirements are due with some time decalage with respect to companies´ones. considering that for non EU clients, obtaining non financial data might be more challenging and take more time than for EU corporates.**

Even where data is available, it may not necessarily meet the taxonomy's requirements impacting the quality of banks' disclosure. While the recital of the Taxonomy Regulations states that if "reliable and timely information could not be obtained, the financial market participants may make complementary assessments and estimates on the basis of information from other sources". This 'relief' is questionable. A ratio composed by numerous assumptions and estimates is likely to have little operational value and legitimacy. There is a need for a single and well-defined framework so that the metrics can be comparable.

Financial institutions should therefore only be required to report sustainability-related information on their portfolios/activities if sufficient and reliable information is available. Financial institutions should not be legally required to disclose information on their financing activities aligned to the taxonomy if it is not supported by mandatory disclosures (e.g. under the NFRD) from non-financial entities, duly aligned to the taxonomy.

b) Scope

The Article 8 rightly distinguishes between the obligations for non-financial undertakings and financial undertakings given their specificities and business lines of financial institutions.

Article 8 of the Taxonomy Regulation and its implications should however be further clarified:

- whether the disclosure foreseen in Article 8 are in respect to:
  - activities as per art. 5,6 and 7
  - to all financial (investment) products made available or
  - generally speaking to all activities of the bank (also lending)
- If a financial institution that offers financial (investment) products but does not make available any products falling under Art. 5,6 and 7 falls under the scope of Article 8

c) The 'green asset ratio'

While Article 8 and its possible implications are not clear at this stage and should be clarified as soon as possible, should the forthcoming Delegated Act implementing Article 8 of the Taxonomy Regulation require banks to **disclose certain metrics, there is** a **need**

to define the scope of the 'banking assets' encompassed in any 'green asset ratio'.

The 'green asset ratio' should be the proportion of:

- **Volume of Eligible Financial Assets that are EU taxonomy-aligned (in exposure amounts in €)**
- **on Total Eligible Financial Assets (in exposure amounts in €).**

With Eligible Financial Assets (EFA) being defined as all **asset classes for which the EU taxonomy is relevant and can be applied.**

The scope of Article 8 should therefore be narrowed down **for banking Eligible Financial Assets according to the three following dimensions:**

- **<u>Relevance for the market:</u>**
  The volume of eligible financial assets that meet the following criteria should be considered and included for the calculation of the ratio:
    - Corporate loans and/or project finance facilities with specified use of proceeds [in general, all banking products with use of proceeds aligned with EU taxonomy]
    - General purpose loans to companies undertaking taxonomy compliant activities
    - Performance bonds to support a taxonomy aligned activities
    - Financial guarantees to support the payment obligations arising from financing a taxonomy-aligned activity
    -

  On the other hand, assets with limited relevance for the purposes of Article 8 such as reserves in central banks, trading books, hedging derivatives, sovereigns, general purpose lending (loans without use of proceeds) unless for companies with taxonomy compliant activities, etc. should not be included
- **<u>Data availability from customers:</u>** Should lending activities fall into the scope of Article 8, the ratio should be narrowed down to the assets where the information from customers is available (e.g. aligned with the scope of the NFRD activities carried out by undertakings subject to a requirement pursuant to Article 19a or Article 29a of Directive 2013/34/EU). The scope of the NFRD should however be enlarged compared to the current scope. Please see our response to the NFRD consultation (link[3]).

  Also, it will be challenging to assess compliance of counterparties outside of the EU with the Taxonomy criteria and in particular the Do Not Significantly Harm

[3] https://www.ebf.eu/sustainable-finance/non-financial-reporting-directive-review-ebf-response/

principles, principally based on EU laws[4]. We therefore suggest that the territorial scope of the "green ratio" should (at least in a first stage) be limited to EU counterparties.

- **Phase-in:** the requirements should distinguish between "stock" and "flow", differentiating between existing exposures and newly originated assets. Article 8 could apply to "new" originated loans in the first step (flow), and, progressively requiring a separate ratio for the outstanding banking exposures (stock) as data availability improves.

Materiality for climate change mitigation and other EU environmental objectives will result to further limitation of the scope to certain types of clients and sectors.

Finally, it is important to take into account that a very large part of banks' lending is General Corporate Purposes, not asset based nor geared towards a specific use of proceeds. It is also provided with a relatively short time horizon in mind, very different from a typical long term sustainability horizon.

Banks will gradually assist companies in transforming their traditional capital structure via "sustainable capital advisory". Clients will need to invest, develop, acquire or sell activities to move from a traditional revenue model to a sustainable revenue model, and banks will for example help to attract money from sustainable sources/investors for these sustainable activities and to select targets for sustainable acquisitions.

A meaningful 'green asset ratio' requires a shift in conditions and product characteristics of banking products and how banks help clients in their sustainable transition. This shift will not be realized overnight but requires experiments and leadership from all parties involved.

d) The alignment of some banks' portfolios with the Paris Agreement and transition finance

While we recognize that the EU Taxonomy has been enriched with 'transition activities ', at this stage the transition in the EU Taxonomy remains very conceptual with very few concrete examples and, when they exist, thresholds remain very high/strict (e.g. 10% of the best performance in the sector). This, in practices, does not make the recognition of transition activities as taxonomy compliant feasible.

From banks´ perspective, the Taxonomy should have a focus on transition activities – by transition meaning a decrease in net carbon emissions through public, quantitative and dated commitments, as part of a transformation strategy. To decrease as much as possible the carbon emissions which is in line the objective of the EU to achieve climate neutrality, banks' focus should be at accompanying customers in the 'transition journey' as opposed increasing the share of their portfolios aligned with the EU Taxonomy by

[4] ESMA itself points out the challenge of using the taxonomy where" proceeds are invested in countries that have not replicated EU standards" in its response to the European Commission's consultation on a Renewed Sustainable Finance Stategy (Question 24.1)

tagging or providing funding to customers which are already ‘environmentally sustainable’.

A classification of clients/ companies based on their transition journey, rather than a binary green/non green, would provide a dynamic key information and provide a better view on whether/how public and private strategies align and on the contribution of the bank to the transition efforts.

Transition requires more flexible and different sustainable goals to be set. For alignment with a 2°C scenario, more forward looking information is needed in terms of companies' strategy with quantitative objectives and a common standard to measure this alignment, such a PACTA . What really matters for stakeholders is not so much the current compliance with the taxonomy but the strategy of the company to adapt to 2ºC or even below 2ºC" scenarios. EU banks are fully committed to accelerate the transition, as shown in the recent signature of the Principles for Responsible Banking, and of the Collective Commitment to Climate Action (CCCA) initiative, under the UNEP-FI umbrella, endorsed on 18 September 2019 by 32 Signatory Banks of the Principles for Responsible Banking. These banks have committed to align their portfolios to reflect and finance the low-carbon, climate-resilient economy required to limit global warming to well-below 2ºC, striving for 1.5ºC Celsius.

To increase participation in this market, it is fundamental to develop a standard in terms of transparency and the main characteristics to be respected by the issuers (what is a "robust" transition strategy) and in terms of KPIs for the measurements of the achieved result.

Classification : Internal

3. Key metrics /KPIs for all financial and non-financial undertakings

To align in the best way the disclosure by corporates, asset managers, insurers and banks, it is key to select a limited number of very relevant and doable common metrics/ KPIs. To ensure relevant and reliable disclosure it is important to limit the scope of mandatory disclosure content to a number of key indicators that should be common with other regulations covering ESG disclosures (**CRR2 pillar 3**, **Taxonomy, Disclosure, Benchmarks**, **EC guidelines on climate related information** and finally the recently published **ECB/SSM Guide on climate-related and environmental risks** that stress that supervisory expectations will be " *as a minimum in line with the European Commission's Guidelines on non-financial reporting: Supplement on reporting climate-related information.",* etc.).

A limited set of uniform KPIs would include considerations on the company side, on the financing side and the risk analysis. The identification of these key indicators should be evaluated in terms of feasibility and **phasing of their implementation and should be consistent with other key initiatives on the matters.**

As a preliminary selection, we propose the following for mandatory common set of data:

- The GHG emissions on scopes 1, 2 and 3 as already included in TCFD and NFRD NBG, provided that the methodologies used are disclosed (as common and standardized methodologies do not exist yet), as well as the objectives to be achieved by 2050;.

  However, the relevance of the use of Scope 3 emissions in banks banking book (i.e. financed emissions) should be further discussed. Carbon foot printing tends to favour simple (but not necessarily impactful) decarbonization strategies. Banks can reduce their total carbon footprint simply by lending more to certain sectors or subsectors with lower sector intensity or companies with a larger 'enterprise value' that artificially depresses the carbon footprint. For example, a carbon footprint approach might identify that emissions from the steel industry are higher than the pharmaceutical sector. As a result, the steering decision might be to divest away from the former in favour of the latter. The associated marketing suggests emissions reduction that is entirely virtual and can be achieved without any meaningful climate action by the bank. It should be therefore considered whether **a more appropriate specific GHG-related KPIs should be developed given the unsuitability of using Scope 3 emissions in absolute terms to credit portfolio.**

  Disclosure of material information enabling the assessment of physical risk, transition risk or other specific categories of ESG risk
- The management of environmental- and social-related risks and opportunities: information on objectives to be achieved and the progress made to achieve them. In terms of social objectives, the following KPIs could be relevant: diversity ratio, gender equality policies and ratios, psychosocial risk management , training and re-skilling … Alignment between NFRD and the social KPIs under discussion in the context of RTS for ESG disclosures is important.

Financial institutions are currently not yet in a position to report all of the KPIs mentioned due to a lack of data availability on the customer side. The businesses must first meet these requirements before financial institutions are able to report. It might be possible to introduce a **time phase in approach, so that KPIs are to be reported by the financial institutions with a delay** after real economy sectors do. Furthermore, a reporting sequence should be embedded in the Delegated Act beyond the first reporting date. This is necessary because even if clients´ data is available, banks will need some time (every time the reporting is due) to collect the data, aggregate it, analyse and prepare their own reporting.

4. The need for a harmonized approach on reporting, a proposal to overcome the data challenge and the role of EFRAG

Harmonized and consistent requirements across EU legislation and regulation

Increased complexity will negatively impact effectivity as well as usability of the tools developed by the EU. Reporting/disclosure obligations arise under numerous different pieces of proposed legislation and guidelines, each with slightly different scopes and definitions. Lack of consistency in reporting makes it difficult to assess a bank's portfolio. To avoid subjectivity and increase comparability, a simple set of metrics and mandatory disclosures as proposed in the previous section that all industries have to use and report on would help achieve a better outcome in the short term and could be built on over time as understanding improves – with the caveat that financial and non-financial undertakings will have a different set of metrics to disclose.

Only perfect alignment between reporting requirements under the NFRD, the Sustainable Finance Disclosure Regulation, the CRR2 Pillar III disclosures, supervisory requirements and the Taxonomy Regulation, will ensure the usefulness of companies' data that banks can use in their reporting.

Data challenge: call for a central database as a key solution

Environmental and social information may not be available in certain markets and may not be presented for financial market participants in understandable and decision-useful ways. If companies can report only once to a central data register, in a pre-agreed format which financial institutions can access for application to finance decisions, effectiveness will increase and costs of implementation will decrease.

There is therefore a need for a centralized EU register where relevant, reliable, comparable, and legitimate ESG data, based on a common reporting standard are available either for free or at affordable cost.

The Commission should build or support, based on existing solutions and infrastructures already in place, an EU infrastructure that could collect periodically, with the help of new reading technologies, existing climate change mitigation and adaptation data of companies that published non-financial statements under the NFRD and other available relevant information, ESG metrics and relevant data points.

Ensuring availability of high quality and comparable ESG data should be regarded as an EU strategic infrastructure project to meet the EU sustainability objectives both under the Action Plan on Sustainable Finance and the EU Green Deal". We are convinced that centralized data register would substantially improve the data availability and thus fasten the achievement of the objectives.

The role of EFRAG and need for a European Non-Financial Reporting Standards

We are fully **supportive of the mandate for EFRAG** to become responsible for developing highly credible standards for non-financial reporting. The proposal for a central database is linked to the upcoming NFRD review and the mandate that the EU Commission has given to EFRAG Lab. The reporting data will need standardisation to allow consistency, comparability and usability and the envisaged EU Non-Financial Reporting Standards should be designed in a way that enables digitalization. Digitalisation should therefore be

considered in the EU non-financial reporting standards setting and reflected upon by the forthcoming EFRAG Lab Task Force.

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