Brussels, 1 December 2020

EBF Response to ESMA's consultation on Article 8

Introduction & background

We welcome ESMA's consultation on its proposed advice to the Commission regarding Article 8 of the Taxonomy Regulation and the reporting obligations that non-financial enterprises and asset managers will have to fulfill.

We agree with most of the ESMA proposals and congratulate them for a very thorough piece of work.

As to provide further background information in our concerns from a banking perspective, and as we indicated in our response to the Commission's Article 8 Inception impact assessment:

- 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 in all of their financing functions 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-

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assessment 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.
- The 'green asset ratio' proposed by Article 8 for the banking sector 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
- We also would like to clarify that some activities included in the consolidated banking portfolio should be excluded from the 'green asset ratio' : the investments activities and the activities already covered by SFDR (insurance, investment advice, portfolio management and the Asset Management holding). Otherwise, such a consolidated reporting not only will be extraordinarily cumbersome and difficult but will undermine the meaningfulness of the information. In short, the green ratio should be limited to the credit portfolios, with the specifics mentioned just above.
- 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

In addition, we would like to highlight the key concerns we highlighted in our position on the review of the Non-Financial Reporting Directive, as some of the issues identified in it could help to bridge some of the challenges in the application of Article 8 of the EU taxonomy.

Initial considerations

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.

There will be definitely coherence between ESMA's recommendations and that of EBA and EIOPA. EBA will not put its recommendations to public consultation. Therefore, some of ESMAs proposals might prelude those of EBA.

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

What we very much welcome in the proposal regarding companies' disclosures

We are pleased to see that ESMA took on board the TEG's recommendations for non-financial corporates on differentiating the treatment of climate adaptation and climate mitigation, of voluntary second level disclosures, of breaking down KPIs by environmental objective and activity, specifying alignment to transitioning activities and to enabling, and has recommended qualitative disclosures to ensure that some investments are part of a solid plan. These requirements will facilitate the work of financial institutions when calculating alignments or using the taxonomy for portfolio creation.

Questions 1 2 3 4 5 6

1. The clear definitions of turnover and capex based on the Accounting Directive, IFRS Regulation and/or national GAAP.

2. ESMA consideration that the logic proposed by the TEG in differentiating between inclusion of turnover from climate change mitigation and climate change adaptation can be expanded to cover the remaining four environmental objectives. And that the latter can follow the same logic as climate mitigation.

3. ESMA proposal to determine CapEx with reference to the indirect method, thus calculating CapEx as the difference between the carrying amount of fixed assets recognised in the statement of financial position between the beginning and the end of the reporting year plus current year's related depreciation and amortisation charges.

4. The inclusive approach for those that will allow companies to disclose in line with their chosen accounting standard (IFRS or national GAAP). Yet, asking transparency on the definition applied.

5. We agree with the proposed conditions for expenditures to be considered part of an eligible plan: approval by administrative body, publicly disclosed, and aimed to make the economic activity in questions taxonomy-aligned within 5 yrs.

Question 16

6. We agree that the categorisation of activities across enabling and transitional should be provided by non-financial undertakings. This will enable financial market participants to make use of this information for their own disclosure obligations.

Question – 18

7. We are pleased to see that ESMA has taken on board the TEGs recommendations and has gone even further in relation to economic activities which are not Taxonomy-aligned and economic activities which are not covered by the Taxonomy). This will help:

    a. Financiers and investors understand what could potentially align and simply what not and avoid misinterpretations. Companies can then describe if they wish so how they manage environmental potential issues in their non-eligible activities.

    b. Disclosures by financial institutions in terms of aligned vs. eligible.

Question 19

8. We also agree that requiring retroactive disclosures would be unnecessarily burdensome for companies.

Questions 24 25 26 27

9. We agree on the proposed presentation of the disclosure as the template will facilitate comparability and integration by financial market participants.

What we agree with regarding Asset Managers disclosures

Question 28

1. We agree that the KPI for asset managers should consist of a ratio of eligible investments that are Taxonomy-aligned.
2. We agree that the weighted average should be based on the share of Taxonomy-aligned activities of the investee companies measured by turnover. Additional calculations for CapEx may also be provided. Capex disclosures is probably the single most interesting metric for investors as it helps understand the direction of travel of the company and validate companies' strategies.

Question 29

3. We agree with focusing only on collective portfolio management activities. Carrying out this analysis for individual portfolios would be for the cases when the client requires us to do it.

Question 33

4. We agree with the idea that we should not include all assets in the denominator, and with point 188, where it is proposed to define a set of "eligible assets" which could consist of "green bonds complying with the EU Green Bond Standard, public and private equity, real estate and corporate bond investments in investee companies" but as we suggest in our answer to Question 30, to include other Green Bonds, in addition to those complying with EUGBS.

Question 34

5. We consider both calculations could be helpful, as they provide different information.
   Our suggestion would be a phase-in approach: First limiting the information to Art 8 & 9 products and later, extending the scope to all kind of funds.
   - Phase 1. Denominator restricted to Art.8 & 9 products à In order to provide information on to what extent these kind of products (aimed at promoting

sustainable characteristics or objectives) are aligned with the EU objectives. This would be aligned to SFRD requirements and will help avoiding greenwashing.

- Phase 2. Denominator with a wider scope to all funds managed (considering eligible assets mentioned in our response to Q.33). à In order to provide information on to what extent asset managers' portfolios, in general, are aligned with the EU objectives. This will help understand how committed asset managers are.

Question 35

6. We agree with the combination of equity and fixed income.

Question 36

7. These requirements will impose significant additional on-going costs.

Question 37

8. Despite the challenges highlighted, we see clear benefits on including companies outside of the current NFRD scope (scope we have actually argued quite clearly to expand in our answer to the NFRD consultation) and briefly highlighted in the answer to Question 38 below.

Question 38

9. We agree that the absence of reported data is a major problem that needs to be addressed by the delegated act. A central ESG data repository as proposed by EBF could be the solution:

   We understand that the best way forward in order to ensure, not only that relevant financial information, but "non-financial" and ESG information is readily available for all interested stakeholders.

   The EU should support a common, publicly accessible, free-of-cost (or at affordable costs) environmental data space not only for environmental data but for all ESG factors to foster comparability. The EU should support development of a centralized data register that would facilitate building of ESG disclosures and the access to relevant and reliable data at the EU level (ideally in a standardized form but also providing access to disaggregated raw data)in an open source format.

   With all the different initiatives, it is important that the Commission acts to facilitate and improve ESG disclosures and the access to relevant and reliable data at the EU level, based on EU legislation.

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 publish non-financial statements under the NFRD and other available relevant information, ESG metrics and relevant data points. It should also be possible to upload additional information to the register on a voluntary basis, but compliant with quality and credibility rules previously established. The EU should also open its databases that collect environmental reporting data and make those re-usable for finance providers via the central repository.

Environmental Goods and Services (activities) EGSS under the UN System for Environmental Economic Accounting should be complementary to the data that companies and financial institutions report. This data is critical for financing, and to track the economic performance of sustainable activities. Eurostat data sources should also be made re-usable for finance purposes (for example to apply in deterring the carbon footprint of an activity following the PCAF method). The public sector (national banks, local authorities, utility companies, ...) could also publish their data (energy efficiency, air pollution, ...) on a statistical basis, protecting the private information for individuals.

In that regard, the interconnectedness of all regulatory proposals, information needs and capabilities by both banks and companies should be balanced, ensuring consistency of disclosure requirements across EU legislation (alignment with EU Taxonomy Regulation, Disclosure Regulation, CRR2 Pillar 3 requirements, June 2019 EC Non-Binding Guidelines on Climate Reporting, ECB guidance) and as much as possible and appropriate in the EU context with widely adopted frameworks.

In addition, given that basic financial flows information is necessary to ensure compliance of secondary market products, information on all companies should be available, with commensurate requirements for SMEs. Please see graph below for further information

EU Central Data Register EU strategic infrastructure project		
WHAT is the data needed for?	**WHO should report?**	**HOW to report?**
• Tagging (data per activity) • Disclosures • Enhancing financial flows/product developments	• All corporates under NFRD We call for NFRD to include: • All listed companies • All large companies	• Only once to the central register • Based on a common standard (EFRAG) • Need to agree a limited set of KPIs

• Labelling • Compliance with standards (E.g. Green Bonds) • Risk management (different kind of data)	• Companies from sectors with a high transition risk • All remaining companies (simplified minimum reporting framework)	
Register to collect other available relevant ESG data Interconnect existing EU and MS databases to ensure consistency Make data available digitally to users		

In sum, the central database is a key necessity and concrete suggestions can be thought of in terms of functional design of the fields for data collection (after the operationalization of Article 8 of the taxonomy.

Other key areas to solve are:

- Alignment on nomenclatures.
- Alignment with Environmental Accounts (SEEA) reporting by EU member states, with trade and production monitoring (prodcom etc)
- Alignment with sustainability definitions in other EU policy domains (eco design directive, ecolabeling, etc.)
- Alignment with corporate environmental reporting development, environmental accounting (DG ENV)
- Alignment between different existing initiatives (CMU Action Plan 2020 Action 1 / EU green deal dataspace [as reflected in the Green Deal Action Plan and the EU Data strategy])

The proposal will make it possible to centralize information on the issuers of financial instruments and, in this way, facilitate and encourage investment activities, also for the benefit of issuers not visible at cross-border level.

10. We agree that the EC should consider the feasibility of developing a methodology to allow KPI calculation to cover also investments in companies not reporting under the Non-Financial Reporting Directive the extent of their Taxonomy-aligned activities.

Questions 32 39 40 41

11. We agree that the calculation should not cover derivatives nor sovereign debt.

What we disagree on or deserves further work or clarity

On corporate disclosures

Questions 5 6 with relation to Q 31

1. While we also agree with the proposed definition for OpEx we are uncertain that how in practice it should be calculated is sufficiently clear for companies. Further, the inclusion of OpEx as a financial metric to measure portfolio-alignment provides no value to the regulator or to institutional investors. We highly recommend to the EC to revert back to the original text: "*capex* ***and, if/when relevant*** *opex*" which will ensure its inclusion at project financing level and in those cases where and when is appropriate and meaningful. We also recognise the importance to include expenditures for public actors, the inclusion if relevant might be flexible enough to allow for sovereign and sub sovereign entities to disclose alignment when needed, which by definition don't invest in Capex but vote and implement expenditures."

Questions 1 2 3 4 5 6

2. We disagree with the statement that minimum safeguards and compliance with them are sufficiently clear and do not deserve further examination. In concrete we think that:

   - The OECDs Multinational Guidelines are extremely comprehensive. For the purpose of the Taxonomy they should be limited (as recommended by the TEG) to labour and human rights, and anti-bribery and anti-corruption. But clarification should be provided by the European Commission on the breadth of their coverage.

   - Companies should be given guidance on what is exactly expected from them in order to be able to confirm and assess compliance, and what explanatory details they should provide to give confidence to financial market participants of their compliance.

For those companies that do not fall under the scope of the NFRD, financial market participants can only assess compliance by conducting due diligence. The latter should be based on a risk approach where the principle of proportionality should apply. But the market feels a bit uncertain of what will be considered as "compliance" and the expectations from regulators on a) their due diligence (and for the different financial products) and b) what can be considered as aligned or not with the minimum safeguards.

Question 12 and related to Question 21(KPIs relevant for both):

Please see our response to the Commission's Article 8 Inception impact assessment and the annex below.

On Asset Managers' disclosures

Question 30

1. We disagree that the numerator should consist of the value of green bonds **complying only with the EU Green Bond Standard** and a weighted average of the value of the investments invested in Taxonomy-aligned activities of investee companies

   - We agree with the second part of the equation, but we believe the value of green bonds cannot be limited to those that comply with the EUGBS. While those that comply will be counted for their entire value (100%) other green bonds should be included for their value aligned with the Taxonomy.

   - This is even more important because there needs to be coherence between:

     - The accounting on corporate bonds and green bonds – if corporate bonds are accounted, it is only reasonable for green bonds to be as well – for the % that they are aligned.

     - Portfolio-level disclosures and at asset management level.

2. The weighted average should be based on the share of Taxonomy-aligned activities of the investee companies measured by turnover. Additional calculations for CapEx and OpEx may also be provided.

   - What we questioned here is the inclusion of OpEX as a KPI for asset managers' disclosures. We are uncertain of what meaningful information OpEx could provide to the outside world and/or to investors except for specific cases as part of the total expenditures invested in a project – this is, when some operational expenditures are included in the investment made given they are inherent to the project.

Questions 37 38

3. While we agree that the EC should consider the feasibility of developing a methodology to allow KPI calculation to cover also investments in companies not reporting under the Non-Financial Reporting Directive the extent of their Taxonomy-aligned activities, we disagree that the way forward is exclusively by assigning them a coefficient derived on a sector-basis under a common methodology. We believe that the assignment of a coefficient should be applied to those stocks that lack minimum reporting. But for all those that have a certain level of disclosures, a more thorough customised methodology based on proxies and estimations should apply. This will allow a) for more accurate results; b) will help encourage non-NFRD companies to disclose and will encourage investors to ask for greater transparency; and c) will not undermine those companies that make the effort to disclose. A mixed approach should be allowed. We agree that the EC should develop specific guidelines and rules for both approaches. The Platform should provide advice to the EC on those.

4. We also believe that a special methodology or adapted one should be developed for SMEs – this is important for listed SMEs or SMEs that issue listed debt.

Questions 39 40

5. Our views in terms of derivatives:

(Q39)

- We agree with ESMA to allow for netting short positions on the lines of Article 3 of the Short-Selling Regulation. This will ensure a more accurate reporting on equity exposure.

  Shorting and single stock options only have the same payoff profile if one is buying puts. Otherwise these are different. Netting short positions is separate to derivatives.

(Q 40)

- We agree with ESMA's position that the calculation on taxonomy-alignment should exclude derivatives. It is important to understand that Contracts for Difference (CFDs) should not be included as derivatives. In many geographies, notably the UK, investors commonly use CFDs to simply avoid stamp duty.

  We support the exclusion of derivatives unless they are CFDs.

  The delta of single stock options should be taken as a starting point as an equity-like exposure to a corporate. If one just sticks to CFDs the delta is 1 (100%) so the CFD notional = equity notional. For an option it is a fractional representation. For futures, we highly recommend to avoid trying to measure them as it will require look-through (for example, measuring the MSCI ACWI would require decomposing it into 3,000 constituents, measuring each one at the respective weighting, and building it back up again. Logistically hard for many in the market and overly complicated particularly if the underlying data ought to be estimated.

Questions 42 43 44 45 46

6. Regarding the template for Asset Managers' disclosures we support the proposed template except for:

- The inclusion of OpEx – as mentioned, we see little value at asset management level.
- While the breakdown by environmental objective makes perfect sense, the activities of one company might apply to more than one objective. And while for the calculation of the overall taxonomy-alignment there cannot be double-counting and investors will use the overall % disclosed or estimated per company, an accurate reporting at environmental objective should be done based on the companies' breakdown disclosures allowing for the inclusion of one activity in more than one environmental objective.
- The proposed template assumes that for all environmental objectives there are and/or will be transitioning and enabling activities; and that is not the case already for climate adaptation and no decision has been taken

regarding the remaining activities. The breakdown should only be applied – for the time being to climate change mitigation activities.

Annex:

EBF proposal on KPIs as per our response to the Commission's Article 8 Inception impact assessment:

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.

- ;

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

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.