EBF response to EBA consultation on draft technical standards on Pillar 3 disclosures of ESG risks

1 June 2021

Key points

- **Article 8 reporting requirements should not be included in the Pillar 3 scope and only disclosed under the Taxonomy Regulation Delegated Act.**

- **ESG Pillar 3 content, scope and frequency should be aligned with NFRD/ CSRD content, scope and frequency.**

- **The ITS requirements should be simplified, aligned with the objective of public risk disclosures and reflect the maturity of methodological developments as well as availability of relevant and reliable data. A meaningful reporting to supervisors / survey should be explored until robust methodologies for banks are developed at EU level.**

- **The disclosures should focus on the exposures of the banking book which represent the vast majority of banks' risks.**

- **We recommend that EBA develops a Pillar 3approach by building blocks. It should commence with a limited number of 'core' templates based on available and a high-quality data and methodologies and gradually, the level of granularity should be adapted.**

General comments

Green Asset Ratio and further KPIs

Given that the GAR and further KPIs will be subject to a separate EU legislation (Delegated Act on Article 8 of the Taxonomy Regulation) as well as the focus of Pilar 3 on risk measures**, we believe that the Article 8 reporting requirements should not be included in the Pillar 3 scope**. We do not consider the taxonomy aligned KPIs suitable for ESG Risk purposes, as they do not embed any risk based classification.

In order to avoid any ambiguity for the use of GAR (and the accompanying and additional KPIs) by the market, it should be disclosed in Chapter 7 of the Universal Reference Document, and only under Article 8 of the Taxonomy Regulation.

Please see our comments on the draft Delegated Act on Article 8:

https://www.ebf.eu/sustainable-finance/european-commission-draft-eu-taxonomy-article-8-delegated-act-ebf-response/

Importance of the consistency of EU Regulations

We acknowledge that there is sufficient evidence by now that banks must monitor and manage their financed emissions to support the European Union's ambitions to get to a sustainable economy by 2050. Accessible, doable and consistent approaches are key to that end. We therefore appreciate the efforts of EBA to align the ITS with other EU regulatory initiatives such as the Taxonomy Regulation, SFDR, NFRD/CSRD, Climate Benchmarks Regulation, as well as with interacting provisions within CRD/CRR (Article 98 CRD on integrating ESG in pillar 2). **However, ESG Pillar 3 content, scope and frequency should be better aligned with NFRD/ CSRD content, scope and frequency.**

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). 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 first set of standards is expected for 31 October 2022, the adoption of second 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.

Simplifying P3 disclosures

We see the disclosures of ESG risks as a way to induce behavioural change and not as a goal in itself. We therefore welcome the opportunity to contribute to the improvement of the templates. The focus should be on those factors/templates that help achieving that goal as opposed to introducing complex disclosure requirements. The disclosure requirements can be extended over time as data become more available. The value of qualitative information is also important, as it allows banks to disclose their exclusion, selection and mitigation strategies and the result of that approach.

Data availability

Data are critical for banks 'reporting and disclosure as banks mainly rely on their customers to feed their own templates. These customers do also share the responsibility to progressively reduce their carbon emissions to meet the commitments of the Paris agreement. Some customers would be obliged by regulatory requirements to disclose this information, according to a calendar and ramp up set by legislators. Thus, we would like to outline that the responsibility of disclosure is first on the clients' side, including the quality / reliability & availability of the data. It is only based on this input, that banks would be in a position to produce their own Pillar 3 disclosures.

Timing and frequency of disclosures

As a direct consequence of this, there is a need for a 1-year time lag for banks to start disclosing on their exposures towards their counterparties after the disclosures of the latter. That also means 1 year after the 1st disclosures of other credit institutions. Also, as corporate clients would be disclosing on a yearly basis and given the longer-term nature of ESG risks, we do not believe there would be a material change that would impact risk position of a bank in 6-month time. We do believe that yearly disclosure frequency would therefore be justified for P3 disclosures.

Methodologies are still under development

When banks' internal methodologies are not in place yet, as it is the case for physical risk or scope 3 emissions measurement, the information should not be publicly disclosed.

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. For the time being, the disclosure should remain only qualitative.

As for scope 3 emissions, we agree that it is a powerful indicator to monitor the "temperature" of banks' portfolio and alignment with commitments they made on reducing their carbon intensity. However, at this stage, no EU standard or shared EU method has been defined and the metrics still lack the robustness required for Pillar 3 disclosures.

We would also like to highlight that most indicators requested are not used at this stage by banks for risk management purposes. We can therefore question the usage that public would have of such information. We advocate to disclose only indicators that are effectively used or would be used in the near future by banks. It seems unrealistic that scope disclosures for all sectors by 2024 will be reported in a meaningful comparable manner. We therefore believe that as an alternative, a meaningful reporting to supervisors / survey should be explored instead until robust methodologies for banks are developed at EU level.

The inclusion of quantitative information about ESG risk factors and their impacts on common risks categories into the Pillar 3 disclosure is 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. Consequently, templates should not mix up ESG non-financial data and risk parameters. We believe it should be only disclosed under supervisory reporting only, and if needed.

Focus on banking book

Information on the trading book or fees and commissions is not meaningful on ESG risks compared to banks exposures per sector and geography, and trends in the related metrics could be affected by various other external factors. Therefore, the priority disclosures should be on the exposures of the banking book which represent the vast majority of banks' risks.

Only at further stages, banks will be able to disclose more granular breakdowns on banking book exposures , when they are able to rely on the information published by their counterparties when CSRD is in place and a consensus is reached on which sectors are carbon-intensive at EU level.

Inclusion of non CSRD counterparties and reliance on proxies

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We understand EBA has included SMEs in the scope Pillar 3 disclosures as they are largely financed by credit institutions.

However, entities not subject to the CSRD will not have any "regulatory obligations" to disclose any sustainability related information. One option would be to use external data providers, but the data market on the SME segment or non-EU entities is nascent, does not exist or is not representative.
Another option would be to use proxies. Such macro estimates can be useful to address the data gap to some extent, but it could lead to an unlevel playing field for banks with significant exposure towards SMEs which are located in several jurisdictions not as advanced as the EU versus other EU Banks with a limited international footprint as they will have to rely on proxies.
We fear that the unconditioned use of proxies will increase the risk of having non-comparable Pillar 3 disclosures of low relevance (due to non-harmonized methodologies, different data shortage) and above all will put at risk credit institutions' legal liability. Indeed, as credit institutions are liable for their disclosures, an over-reliance on proxies could be seen as "misleading information" towards investors and could expose banks to potential legal suits.

Therefore, we believe that banks should primarily disclose with the use of available data only to avoid the abovementioned consequences.

If proxies are used, transparency of the methodologies is pivotal to aim for comparability. Hence, when it is necessary that proxies are used, where they are desirable (e.g. scope 3 emissions or entities outside the NFRD/CSRD scope), are developed/approved at EU level by EU authorities 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 from banks' counterparties.

Consequently, we believe that the most positive way to address the issue stake would be to only include entities subject to CSRD in the scope of P3 disclosures.

Inclusion of non-EU counterparties

With **non-EU counterparties,** banks face the same issue of not being able to use prior public disclosures as there is no equivalent binding disclosure standards in most jurisdictions (and this situation will likely remain beyond 2024). Banks would thus need to use proxies until they can get this information from their counterparties whereas climate risk awareness and other standards may be limited in some countries.

As long as there is no similar local recognised standard in the jurisdiction considered, there should be no mandatory public disclosures on non-EU counterparties. This is not only because of the non-availability of the data but also because banks will have to request information from clients that other credit institutions located in the same jurisdictions (which are not as advanced as the EU) will not. This will distort the market competition in outside EU jurisdiction where EU banks operate, putting them in a disadvantageous situation vis- a vis their clients. Should inclusion of non-EU counterparties be nevertheless considered, this should be only required to be reported mandatory on the basis of proxies.

Impact assessment

Section 5.1 refers to an Impact Assessment to be made to measure the "cost/benefit. It would be interesting to evaluate the results of this IA as it seems that the significant costs for implementing those new requirements might exceed the benefits. The proposed Pillar 3 ESG disclosure are too granular and detailed and we believe it will be too complex for investors to benchmark or the specific and detailed information , seriously limiting the benefits of the initiative.

Step by step approach

We propose that EBA develops an approach by building blocks that would commence with a limited number of 'core' templates based on available and a high-quality data and methodologies and adapting gradually the level of granularity of Pillar 3 requirements.

For the 2023 and 2024 reports, that will take place before the implementation of CSRD we would propose the following disclosures:

1. A simplified template 1 Banking book - Climate Change transition risk: Quality of exposures by sector with the gross carrying amounts by NACE code and by 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), at least up until the outcome of 2022 ECB climate stress testing exercise, but with the possibility left for banks to disclose some quantitative physical risk data on a voluntary basis
6. The Qualitative information templates – to be replaced by an expected compliance with TCFD guidelines. As TCFD standards are recognized at international level, they ensure comparability among banks and level playing field with non-EU banks (Question 4)

For the reports from 2025, the Pilar 3 framework could be progressively enriched in line with the gradual implementation of the CSRD until the end of the phase-in period and with the development of international standards.

Response to the EBA questions in the consultation paper

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

We would like to make the following comments/request for additional clarification:

- The disclosing instructions are not entirely clear, the interaction of rows and columns (e.g., in table 1, sectors are presented in the rows, yet "carbon intensive sector" exposures are also required in the columns).
- Information on business strategy and processes (table 1 and 2, line 2) as well as risk management (table 1, line 16 and table 2, line 12): Concrete limits can only be set if the methods of assessment have advanced. This assumes a continuous quantification of ESG risks, which will not be possible at least at the beginning and only partially possible at a later point in time. It should therefore be supplemented with regard to the limitation, if used. With regard to the methods or benchmarks used, information on the international initiatives is expected. With reference to ESG risks as a risk driver, not as a risk category, this requirement shows that the required granularity of the information is far too high and no longer in accordance with Art. 435 CRR.

- The instructions could include references or data points to other relevant reporting or disclosure templates

- Short -term, medium-term and long-term need to be clarified in more detail. For example, in paragraph 68 in the consultation paper.

- The transmission channels / transition risks would benefit from more details. See paragraph 22 in the consultation paper.

- Further clarity is needed on whether the templates would cover EU and non-EU exposures or just EU ones. For example, Template 3 refers to the energy efficiency of loan collaterals, based on the EPC label. This label was introduced in Europe via de energy Performance of Buildings Directive (as referred in the consultation document) – therefore there should not be an expectation that non-EU countries have EPC labels too. In this sense it is necessary to clarify whether the request to "disclose separately those exposures that for which there is no EPC information of the collateral" refers also to exposures in non-EU countries which as explained will not have an EPC label.

- The scope of the qualitative disclosures and whether it only covers ESG impacts on institutions financial exposures or also on own operations should be made clear.

- Whereas NACE code should be based on the principal activity of the counterparty as per draft instructions, allocation rules should be clarified for diversified groups and for cases where the asset financed does not have the same NACE code as the counterparty (e.g. specific use of proceeds, SPVs with non-recourse financing to the sponsor(s))

- The wording total exposures' in template 1., which seems to refer to all exposures, whether performing or non-performing, 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. Thus, there could be a confusion in a Pillar 3 template with the metric requested in column 'a', namely the gross carrying amount. Consistency with already existing template CR1-B (Credit Quality of Exposures by industry or counterparty type) is key

- Clarification would be appreciated as to whether only scope 1 emission are requested for GHG emissions in template 1 under column 'y' and for 'CO2 emissions' in template 3 under column 'k' or whether this relates to counterparties that normally should disclose scope 1 and 2 emissions.

- Clarification should be provided on the scope of RRE and CRE loans to be included in template 3as not all real estate loans are collateralised.

- Clarification is also needed on the scope of some of the templates as there seem to be discrepancies. Some templates seem EU only but not all. For example, in template 3 the row of "total loans collateralised" doesn't specify if EU only.

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

- The requirements go beyond EU regulations in some instances (e.g. e GAR which goes beyond the CSRD regulation). Please see our comments above on GAR and related KPIs.

- There seems to be a difference between the banking book and trading book in which way the NACE-code is determined based on the different parts of the counterparty activities. It could be questioned if the different methods add any information or only makes implementation more complicated.

- It should be clarified that if different requirements for disclosure are included (for instance, other objectives, harmful/neutral activities, etc) new deadlines would apply.

- The way of presenting transition risk and mitigation is different in the various template which makes the connection quite tricky to establish between both.

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

- We agree that the draft ITS is a good start to fulfil the purpose of Article 449a CRR. Measuring and monitoring financed emissions is the first step towards impact-awareness in banks and monitoring new risks.

- We believe however that the requirements are too granular and not all relevant for public disclosures under Pillar 3. We doubt in particular the usefulness of disclosing at such a level of granularity in absence of international agreements. Also the disclosure of information between risk and the mitigation side (cf. 7 vs. 2 templates) is not balanced.

- P3 should focus on information needs of P3 users. The risk parameters requirements seem to be based on the supervisory needs rather than public interest. We would suggest that EBA reviews the requirements and considers whether some of the information request should be reported to supervisors in the context of supervisory dialogue instead of publicly disclosed.

- The inclusion of quantitative information about ESG risk factors and their impacts on common risks categories into the Pillar 3 disclosure is 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. Consequently, templates should not mix up ESG non-financial data and risk parameters. We believe it should be only disclosed under supervisory reporting only, and if needed.

- **We suggest that the most relevant templates that serve the purpose of the underlying regulation and are technically feasible for most banks at this stage are** :
    - A simplified template 1 Banking book - Climate Change transition risk: Quality of exposures by sector with the gross carrying amounts by NACE code and by geography,
    - Template 2 Banking book - Climate change transition risk: Exposures towards NACE sectors A to H and L - Maturity buckets (cf. Question 7)
    - Template 4: Climate change transition risk - Alignment metrics for the banking book, in the "Mitigating Actions" section (cf. Questions 8 & 9)
    - 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)
    - Template 7 - Exposures in the banking book subject to climate change physical risk, in a qualitative manner (Question 12 & 13), at least up until the outcome of 2022 ECB climate stress testing exercise, but with the possibility left for banks to disclose some quantitative physical risk data on a voluntary basis
    - The Qualitative information templates – to be replaced by an expected compliance with TCFD guidelines. As TCFD standards are recognized at international level, they ensure comparability among banks and level playing field with non-EU banks (Question 4).
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- For the reports from 2025, the Pilar 3 framework could be progressively enriched in line with the gradual implementation of the CSRD until the end of the phase-in period and with the development of international standards.

- In addition, we have the following comments:

  - Methodologies are still evolving within financial institutions and comparability among banks cannot be ensured. Requesting public disclosure based on different and still evolving methodologies and scope may lead to misinterpretation and could expose banks to reputation risks or legal risks.

  - Multiplying concepts (sectors that highly contribute to climate change, carbon intensive sectors, companies excluded from EU Paris -aligned Benchmarks) is detrimental to a good interpretation of the information provided in the templates and any ratio that would be drawn from this information to estimate the share of exposures to carbon-intensive sectors would be misrepresented (overstated) as, for example, all exposure to railway sector would be included
    Carbon-intensive sectors, which we understand are defined in the absence of a brown taxonomy, are too broadly defined. We will have on the one hand green assets with a rather narrow base based on strict criteria and partial criteria defined in the European taxonomy, and on the other hand broad sectors of the economy to be considered as "brown". Moreover, it is unclear whether a green investment in a carbon-intensive sector is to be disclosed also in the carbon-intensive sector exposures. This would be highly misleading in the reading of the tables. We would recommend to stick to methodologies as recommended by TCFD following GHG protocol.

  - Furthermore, a split into sustainable exposures and exposures that are excluded from the Benchmark Regulation does not increase the usefulness of the reporting but only the complexity of the disclosure. Therefore, the corresponding reporting obligation ("Of which 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") should be deleted.

  - In particular for promotional banks, the ITS fully leaning on FINREP counterparty sector allocation, might not fit the purpose of the regulation. Sovereign exposures (defined in the ITS according to general governments as per FINREP) are out of scope, whereas the non-financial corporations fully owned by municipalities and/or guaranteed by municipalities are in scope. As the (local) government still bears the ultimate risk for these exposures, the rationale for requiring the assessment purely based on the counterparty sector is unclear. In conclusion, we would appreciate clarification of whether the sovereign exposures only comprises the general governments as per FINREP, or whether the treatment should base on the ultimate risk taker. Please see also our answer to question 1 with regard to the inclusion of local public enterprises in the GAR calculation.

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

- No. Even for qualitative information, we think that it is too detailed. For the moment, there is no common language and interpretations may differ and be misleading. It would be beneficial to have more standardised instructions on the Social and Governance parts, for example how EBA wishes to see alignment between banks' pillar 3 disclosure and the human rights check of the taxonomy.

- The scope of the qualitative disclosures and whether it only covers ESG impacts on institutions financial exposures or also on own operations should be made clear.

- Clarification would also be welcome on information required in the transmission channels i.e are banks expected to provide information about service providers for instance or other collaborators with the institution?

- Furthermore, we would advise to align further with the ECB and with BCBS as transmission channels are also required by the ECB guide and further explored in the BCBS report. This has turned out to be significantly challenging in identifying and measuring. Most identification that has been done up to this point is very qualitative in nature and also does not provide much depth on clients but on sectors. To further achieve reporting on transmission channels, the EBA could also provide more guidance on how to assess transmission channels per risk type: CR, OR, MR, Liquidity. Furthermore, the challenge sits with data per counterparty.

- Finally, when considering the qualitative disclosures, there are significant deviation between the requirements in ITS and information that is required e.g. by ESG rating agencies. Therefore, it is uncertain if the Pillar 3 requirements will respond to the market demands.

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

1) the questionable combination of risk and ESG data
2) granularity which is too high for disclosure purpose

1) <u>Combination of risk and ESG data</u>

- 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 nature.**

- **The risk parameters** requirements seem to be based on the supervisory needs rather than public interest. The added value of, data such as PDs, provisions and performing/non-performing breakdown for users of P3 disclosures is not apparent and should be excluded from the template. At this stage, such information should be first reported to supervisors, id needed, following a dedicated industry consultation and disclosed only after 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.

- **IFRS 9** data requested in the draft ITS also **goes beyond the current and forthcoming (CRR2) P3 disclosure requirements** for credit risk at sectoral level (e.g., average/range of PD only provided by Basel exposure class – the average of IFRS stages is only provided by banks as part of EBA stress test). Moreover IFRS 9 data requested in the draft ITS **goes beyond the current and forthcoming (CRR2) P3 disclosure requirements** for credit risk at sectoral level and involves a major risk of misinterpretation by the market.

  We are also concerned by the risk of misinterpretation by the market in disclosing a probability of default by sector over 1 year considering the very long-time horizon of materialisation for transition risk. Moreover, credit risk rating is influenced by many factors and transition risk is only one driver. The outcome would likely be meaningless, if not misleading.

  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 faces very moderate credit risk in the short term. Also, a good green business can be poorly managed. The PD may thus be higher for certain green activities than on carbon-intensive sectors.

  There is an even broader risk of misinterpretation for populations less familiar with IFRS 9 standard, for instance as to the difference between expected and incurred credit loss, also in relation to the disclosure of the regulatory PD (not forward-looking).

  This information may be more relevant for supervisors to follow the evolution of PDs over a long-time horizon than for investors. Thus, we suggest that IFRS 9 climate related information be not made public but rather reported to supervisors.

- **Reporting to supervisors could also be envisaged for any regulatory or supervisory use as regards any analysis of credit risk differentiation of assets according to green or brown features.** 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 CRR-mandated assessment yet and NGFS study could not conclude on such risk differentiation at this stage (and has just launched a second questionnaire to continue its analysis) – although we acknowledged this may be given its focus on historic PD analyses. The EBA sensitivity exercise also states that '…No clear statistical evidence of risk differentials in banks risk parameters…'. EBA to establish such connection by 2025.

We would therefore propose that in the meantime the **EBA avoids making such connection in ITS and removes 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 and own conclusions.

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.

2) Granularity and complexity

There is an excessive amount of information and granularity required, which raises a large number of issues:

- Question of the proportionality to the objectives pursued vs. very long and resource-intensive data collection (/data quality remediation) and implementation.

- Uncertainty as to the comparability and the usefulness of the requested information under the current state of data quality for users of P3 disclosures and question of readability, including a risk of misinterpretation with sectoral data at both row and column level. In our view, this is not the purpose of Pillar 3 to disclose such granular and complex information.

- Impact on the competitiveness of European banks operating outside Europe, when their direct competitors will not have to request such granular information from clients as European banks will have to do.

- Requirements are not finalised yet. If templates are likely to change, there is a risk of sunk costs for banks and it may add further complexity to disclosures users.

While we believe that a sectoral approach such as the one included in the rows is relevant (except with regard to tobacco sector which is not relevant for climate risk), sectors classification has not been stabilised and sectors with NACE code from A to L may not be considered all as "high contributors to climate change" and, operationally, the granularity of sectoral information remains a challenge as there is a lack of available and comparable data including on "the subsectors" included in the row.

The quality of subsector data still needs improvement as banks currently only produce Pillar 3 disclosures at sector level. The NACE codes also need updating. We suggest including more of the sub NACEs for green activities, such as the decommissioning of oil & gas. NACE codes should also allow for better specification of actual (detailed) economic activity level. For example D35.11 (electricity generation) does not make a distinction between electricity generated by renewables and non-renewables. It is desirable to have such split. We also suggest making a notion on alignment with FINREP requirements to avoid reconciliation discussions on breaking down by NACE codes and to provide clarity for external users.

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The quality of the disclosed sectoral information would therefore benefit from sufficient testing time before any publication to the market. As we do not believe that "proxies and estimates" could alleviate this challenge due to the lack of comparable and framed methodologies to determine these proxies, we are supportive of progressive approach allowing qualitative disclosure in a first stage and then quantitative in a timeframe consistent with CSRD.

Concerning proxies, we believe their use should be limited to exceptional cases to avoid the risk of having non-comparable Pillar 3 disclosures of low relevance (due to non-harmonized methodologies, different data shortage) and avoid putting at risk credit institutions' legal liability. Indeed, as credit institutions are liable for their disclosures, an over-reliance on proxies could be seen as "misleading information" towards investors and could expose banks to potential legal suits.

If information on counterparties is needed for banks' disclosures that is not publicly available, in order to mitigate to some extent banks' legal responsibility, it is necessary that proxies are developed by EBA to be commonly used in the EU to ensure a level playing field and comparability between EU counterparties.

With **non-EU counterparties,** banks face the same issue of not being able to use prior public disclosures as there is no equivalent binding disclosure standards in most jurisdictions (and this situation will likely remain beyond 2024). Banks would thus need to use proxies until they can get this information from their counterparties whereas climate risk awareness and other standards may be limited in some countries.

Disclosures of exposures to the most exposed sectors

We believe it is premature to request banks to publicly disclose their exposures to the most exposed sectors defined in **columns f to k and p to u** .

- It pre-empts the decision to develop taxonomy for harmful activities and uses regulation that has not been developed for this purpose.

- Information provided by CSRD Corporates would not be sufficient to provide all the required breakdowns. While the Taxonomy regulation requires the publication of green ratio by corporates, there is no requirement for those firms to disclose their revenues by activity or according to their compliance with Benchmark regulation that would mirror the data requested in this draft template. And even with the application of CSRD from 2024, the green asset ratio published by corporates will not provide any information on non-green exposures that would be necessary for banks to fill in this template on the non-green exposures part.

- IT systems are also not ready to receive the share of revenues according to multiple NACE codes

Considering the major data and methodological impediments, there is a significant risk for banks to disclose unreliable and not comparable information to the market whereas legislative texts related to some of the disclosure requirements are not in place (harmful exposures, CSRD review) and because disclosure by CSRD counterparties has not started yet.

Therefore, we suggest that banks disclose only a **simplified banking book template** in a first stage, whereas the additional elements which should rely on counterparty's disclosures and/or which are not fully stabilised should not be made public at this stage but could be sent to supervisors until more clarity and more certainty is achieved.

This **simplified banking book template could thus consist in reporting only the gross accounting exposures at sectoral level** but without making very uncertain assumptions as to the share of counterparties' activities that is environmentally sustainable (CCM), the one excluded from EU Paris-aligned Benchmarks and the one 'towards other carbon-intensive sectors'. Only in a second stage, when CSRD is in place and a consensus has been reached on which sectors are carbon-intensive at EU level, banks will be able to rely on the information published by their counterparties to disclose the above-mentioned breakdown at sector level with real value a reduced legal and reputational risk.

While we acknowledge that it is in the interest of risk managers and regulators and supervisors to understand the extent of banks exposures to certain sectors, we however believe it should not be subject to public disclosures as long as reliable data are not sufficiently available and comparability is thus an issue when disclosed and interpreted by external stakeholders. It could be subject to reporting to supervisors on a test and learn mode to monitor the maturity of the topic although the concern as regards to required breakdown remain even if the disclosure is not public.

Beyond the question on columns f to k and p to u, we would also like to express following comments:

- EBA should specify what is meant in column z by « disclosed by individual firms », i.e. if it refers to public information, or to information bilaterally collected by banks from their customers.
- There are banking **secrecy** concerns where a credit institution has very few clients in a specific sub sector. In this case, it might be easy to understand the counterparty that is behind the relevant PD.

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?

- The scale of the climate challenge is massive and the role of the financial sector in accelerating the transition to a net-zero emissions economy is essential, highlighting the importance of carbon accounting, especially in the financial sector. The EBA notes that measuring and monitoring financed emissions can serve as a proxy for monitoring transition risk.
- At a minimum, the GHG emissions financed by financial undertakings in the European Union should be known, in order to enable (science based) targets and tracking progress towards a zero carbon economy. Industry lead approaches to measure or estimate and monitor financed emissions following the GHG protocol that enable disclosing financed emissions are sufficiently available.

- For example, the Partnership for Carbon Accounting Financials (PCAF) addresses emissions management through its Global GHG Accounting and Reporting Standard for the Financial Industry, which enables financial institutions to assess and disclose the GHG emissions of their loans and investments.. Its primary metric for disclosure is absolute financed emissions, expressed in tons CO2 emissions.

- However, some banks are raising concerns with the current methodologies that have been developed - given that most of them do not avoid multiple counting (up to 8 times) of direct emission and indirect emission of the value chain. This means for instance that where a bank funds the counterpart and its providers, the banks will double report the same emission, which makes no sense at a credit portfolio level. Those banks consider that a top-down methodology being more accurate that the bottom-up methodologies which consolidate micro data on scopes 1 and 2 emissions and lead to multiple counting.

- Also, some believe that compensations that lead to a reduction in net C02 emissions should be taken into account. As measures to compensate for C02 emissions will gain in importance in the future, as a result of which C02 is saved elsewhere. This will apply in particular if there are no other options for reducing direct C02 emissions. On the one hand, we should think of voluntary compensations, e.g. in accordance with the Verified Carbon Standard, or compensations in accordance with the Clean Development Mechanism. This applies to both borrowers and institutions. Compensations that lead to a reduction in net C02 emissions should therefore be taken into account. It should therefore be made clear in the instructions that with regard to the exposure of the borrower, the CO2 emissions are shown after the C02 offsets. Alternatively conceivable, but more complicated to implement, would be the indication of gross and net C02 emissions. However, this would require that this information is then part of the digital financial report in the future. In addition, information should also be provided for corresponding C02 offsets by the institutes, especially if these are used to offset the financed Scope 3 emissions.

- **However, as this issue is very complex, the industry may not be in the position to reach a consensus before June 2024. Therefore it seems unrealistic that scope disclosures for all sectors by 2024 will be reported in a meaningful comparable manner. We therefore believe as an alternative that a a meaningful reporting to supervisors / survey should be explored instead until robust methodologies for banks are developed at EU level.**

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 data inform the banks and their supervisors with respect to the horizon of problematic loans. 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, i.e. loans and advances' contractual maturity dates. The average weighted maturity has no added-value compared to maturity buckets and should be excluded from the template.

- With regard to the "subsector approach", as mentioned above, we believe that a progressive approach is needed considering the current lack of data availability.

- More clarity should be provided whether the NACE classification is expected at group or at
entity level. It seems to be at entity level considering the PD requirements in template 1. The The focus should match that of Finrep in order to smoothly fit into the Pillar 3 framework.

- Horizon will play an important role. Important to note that how factors will play an important role is a challenging question. Therefore, longer horizons do indicate that possible more risks could be at play, but it does not indicate which risks.

- Clarification should also be provided as to which reference should be taken into account when filling in the template. Our understanding is that it should be the contractual maturity dates of loans and advances but would appreciate confirmation.

- We believe that the Weighted Average Maturity column does not add value for transition risk purposes

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?

- Although we acknowledge that the relative alignment-with-Paris metrics are appealing, they suffer from assumptions and uncertainties and are complicated to calculate, so their informational value as well as their accuracy is low. For stakeholders comparing banks and comparing portfolios, the information does reveal where the biggest transition problems will be. However, this hot spot analysis might also pose challenges. For example, transportation sector "Average tons of CO_2 per passenger-km". This is likely to be possible for big public companies which report this as part of the annual report. For other companies, it will be very difficult to calculate this and it is also unlikely medium sized
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- companies collect this themselves. Special regulation would need to come in place to force medium size companies to publish this information.

- That's why 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; 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.

- For Scope 3 please refer to Q6. It should be clarified if EBA phase-in on scope 3 emissions also concern this template.

- Some banks will use portfolio alignment methods as a tool for understanding banks' lending policies.

- Alignment metrics are useful. This template can meet the stated goal, as other templates also could.

- Clarifications to be requested to avoid double counting. The double counting would appear to result from a specific reading of the table, but this is not unique for Pillar 3 templates, and strictly based on the structure of the template, this should not be an issue.

- It is not clear what is meant by EBA for the measure of emission intensities in some sectors when both a production of emission per carbon intensity for the sector and a mix of high-carbon technologies are indicated. Does it mean there would be a choice for disclosing banks between the 2 indicators?

- In this table also, fossil fuel combustion sector in column C has a corresponding NACE code D.35 Power. There is an inconsistency between the NACE code and the sector as D.35 covers all types of electric power generation, be it through fossil fuel combustion, nuclear or wind farms. Should the NACE code be correct, the carbon intensity in column F should be CO_2 per MWh and not GJ. The same inconsistency exists for the first row ('Power' sector) for which the NACE Code is power, steam and air conditioning supply. Maybe the first one should be fossil fuel combustion with GJ as carbon intensity and the second one Power with MWh.

  We would suggest to merge Power and Fossil fuel combustion sectors in a unique line, as D35 includes both: D35.1 refers to power & electricity and D35.2 to Oil & Gas. Otherwise a wider breakdown at level 3 NACE sector would be necessary.

- The information proposed in terms of alignment metrics and relative scope 3 emissions makes sense, however the ability to provide this information will depend on how methodologies evolve, and whether these methodologies will be able to cover all sectors and segments. At the moment, not all sectors or subsectors are included in available methodologies and it is not possible to foresee how this will evolve over the next 3 years. Clarification from EBA would be appreciated as to the data sources to be used when the sectors/NACE codes are not covered by the current methodologies used by banks.

- In addition, clarification is needed on:

    - reference to “potential additions” in the template, on segments covered and EU/non-EU exposures
    - Calculation of EPC in case a single loan is covering several collaterals with different EPC levels?
    - Calculation of EPC when specific countries have different certification levels that covers several EPC classes (e.g. A-C or D-G)
    - In case a building is not legally subject to EPC certification, banks should aggregate the exposure in column i?

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 are allowed to choose their reference scenarios, whether the scenario is more ambitious than the 2 degrees scenario, in order to be consistent with their public commitments. The main stake is to have available, credible and transparent scenarios.

- For any scenario, many banks would favour always comparing against the 1,5 degree scenario.
- The International Energy Agency (IEA) and the Sustainable Development Scenario (SDS) is being updated as it does not include land use sector and necessary negative emissions for achieving net zero emissions like IPCC and other scenarios do include. Also IEA is updating their scenarios to have a Paris Agreement striving scenario for 1.5 degrees - to be launched May 2021.
- We suggest to include scenario options like One Earth Climate Model (OECM) that builds on updated climate science and front loading of reductions.

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 exposures to individual counterparties indeed. This kind

- of information should not be publicly disclosed and if required by supervisors, it could be part of supervisory reporting. In addition, a requirement to disclose this kind of information, especially per company, is at odds with the idea of encouraging transitions towards sustainability, as it merely concentrates on pointing at the banks' own customers by name.

- However, even if not part of public disclosures, 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 EBA should provide clarification.

- The responsibility of drawing such list may need to 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.

- Consequently, the template should not be retained for Pillar 3 disclosure, or *a minima*, exposures should be reported in an aggregated and anonymous and consistent manner. Alternatively, solutions with aggregate data could be further explored based on a hard list of counterparties that would have been provided *ex-ante* by an EU authority.

  Clarification is also requested as to:

  - Whether the Top 20 emitting companies list is requested at Group level or at subsidiary level? In case a top 20 world list provided at group level, how can banks differentiate the funding that goes to a subsidiary that might be transitioning faster that the Group is?

  - What does company mean in this template? LEI – is requested in column B and it is issued at company level, but then the TOP 20 lists does not differentiate by company level. Column E requires amount of sustainable exposures (contributing to climate change mitigation) either based on the purpose of the activity funded, for special purpose lending, or on the counterparty's information on the level of alignment of its economic activities.

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 understand better what is the objective of scoping– in trading book. 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, trading positions have very short maturity which clearly limits the real impact of the transition risks on this position.

- It is also **of little use for the market and the general public** as it would provide very limited information as to the greening of the economy, especially when it comes to the share of assets sales and purchases whereas the latter would be operationally very burdensome. We also do not understand the rationale for disclosing trading book assets by sector, as trading activities are not "funding" activities. We feel that disclosures users would mostly disregard this information and focus on the loan book. The template is also not very relevant if the vast majority of the exposures of the institution are towards the financial sector.

- If the purpose is for central banks to analyse to see how liquidity is provided to issuers, some members feel that regulatory/supervisory reporting may be more suitable as such disclosures could be misleading to the market.

- Nonetheless, in both potential cases, the following arguments apply:

  - The proposed metrics are not relevant to assess the level of risk. Concretely, gross carrying amount, gains and losses over the period, and sales/purchases volumes are accounting metrics as opposed to risk metrics and are therefore inadequate to assess trading book sensitivity to ESG risk factors. On the contrary, the reporting of trading book accounting metrics combined with lists of brown economic sectors amounts to a "naming & shaming" approach that is considered counter-productive to the promotion of the energy transition and leads to increased reputation risks. In addition, the context that green assets will be less risky than brown would be very market misleading.
  - As already mentioned above on the banking book, the conceptual framework to set a systematic, robust and quantitative link between ESG risk factors market risk does not exist. Consequently, emphasis should, for the time being, be placed on the banking book, and we would then propose to leverage upon lessons learnt in order to address trading book specificities in a second stage.
  - The above argument is further supported by the fact that Trading Book exposures are by essence very short term, while ESG risk factors are developing mostly in the medium to long term. Consequently, the assessment of trading book sensitivity to ESG risk factors cannot follow the same approach as the banking book. Considering the scale and the complexity of ESG matters, we reiterate the fact that emphasis should, for the time being, be placed on the banking book.

- The template does not seem to be useful to capture the market risk:

  - It is assumed that, in this case, column C captures underlyings instead of counterparties. Data of underlyings at such granularity would not be available and the proposed data would provide no detail on the measurement of risk and could also mislead the market by implying there is a client relationship with the issuer of the underlying financial assets.
  - 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.

- It **pre-empts on the discussion regarding harmful exposures** (see response to question 5)

- It represents a **huge amount of work,** considering the granular breakdown of trading book assets and P&L and the high volume of transactions (purchases and sales) at group level to be mapped to CSRD counterparties whereas the benefits remain unclear:

- If it had nevertheless to put in place, the scope of instruments should be restricted and/or there should be a phase-in on those instruments and the metrics and instructions should be further developed for clarity (e.g. whether the gross carrying amount or the "mark to market" amount should be disclosed; should columns e and f (assets purchases plus sales) need to be calculated on a daily basis or average end of day value ..)

- Stock vs. flow over the period. We understand that only transaction in the reporting period are in the scope. If not, additional difficulties as the information on the trade is no longer in some IT systems, of which accounting IT systems which are part of the architecture for Pilar 3 reporting. Need to design and set up a specific mechanism to cope with a large volume of expired transactions.

- Also, we understand that derivatives are excluded from the scope of the Trading book analysis as well as from the thresholds, with a reference to EBA Policy Advice (paragraph 62), the latter being deemed totally consistent with ITS P3 ESG.

- Current physical risk identification techniques look at the various factors mentioned in the long term approach. Holdback is that it is based on sectors and not on counterparties. Scenario Analysis will be needed to further identify this.

- 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.

- 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 waiving trading book pillar 3 disclosures, and instead, focusing 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?

- Although we recognise that physical risks factor have and may have a more significant impacts over time as risks drivers on other types of risks and that at some point will need to be disclosed in a quantitative manner, we recommend that for the time being a very simplified disclosure based on qualitative and order of magnitude per large geographical areas and sectors should be made public for the following reasons.

- The proposed templates are very granular. Even if simplified, it is hard to see the benefits of the template vis a vis the work that has to be done in order to collect the data. It will also be hard to use this template without standardised measurements or directions. Banks need **first to develop their own methodologies and are still in a test and learn phase.**

- **As rightly highlighted** by EBA in the recent consultation on ESG risk management, the methodologies to quantify the risk are not mature and there is a **significant lack of data** (namely on asset location) which is essential for those reporting. This is calling for a proportionate and phase in approach where in the first phase, banks would be able to disclose qualitative data.

- Furthermore, this granular approach may create a dependency on **external data providers** which do not all have the same metrics or the same granularity and insufficient risk event coverage. They may use various proxies within their methodologies which are very broad and thus not relevant, for example to take the supply chain into account. In the end, 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 providers' database cannot be effectively checked yet (and providers are not transparent on their data), it seems very **dangerous** to us 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 has to be therefore first be correctly understood to be able to develop their **own risk methodology**.

- 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. Furthermore, in this transition period, banks would be able to disclose quantitative data depending on the maturity of the methodologies developed and by explaining the rationale behind prioritizing some risks and methodologies (on a **risk-based approach** as it might be relevant for a bank to first focus on the methodologies for the risks on which they are more exposed). If such quantitative information is nevertheless absolutely necessary for supervisors, a regulatory/supervisory report could make more sense to meet this objective, which we are still evaluating with our members. This should not be in our view be the purpose of Pillar 3 disclosures.

- **Double counting of acute and chronic** events should be avoided. As such, the current template would lead to count a same exposure several times where they are exposed to several type of climate change events (floods, tornado, etc). This is even moretrue considering that a geographical area may be subject to several climate change events. Therefore, it would lead to a non-correct perception of the real exposure of the ban.

- It also does not seem relevant to include exposures with **different time horizons**: a one-year exposure will be less exposed to climate events than a 30-year one. Mixing those different time horizons will provide a non-accurate view on the risk incurred. We recommend setting a specific time horizon that is consistent with the time horizon of banks' exposures.

- Moreover, if EBA seeks comparability and consistency among banks, it should be specified the time horizon and the climate scenario(s) to be used to assess those risks, although this remains too early at this stage.

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 lack of methodologies on data measurement. It would be troublesome to compare data if institutes use different measurement methods.

- Climate events not predictable with historic data series. For resilience, scenarios must be assessed against skills and other redundancies that prove their value under stress (such as virus outbreaks).

- Moreover, the lack of methodologies on data measurement would hamper comparing data if banks use different measurement methods. Banks have not developed so far their in house methodology and cannot rely on third party assessment. Banks will not be in a position to explain nor to justify their disclosure and hence could be exposed to legal 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.**

- We would also appreciate clarification regarding how to treat exposures that are prone to impact from both chronic and acute climate change events.

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?

- Energy transition and alignment to Paris Agreement objectives require a deep reallocation of financial resources towards sustainable investment. **Therefore, a 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.

- As highlighted under general comments, the GAR should be removed from the Pillar 3 risk disclosures. Please see also our response to the EC DA. .

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.

- We welcome template 10 and reflection on climate mitigation actions.
- We would appreciate the EBA allowing flexibility, as the recent staff paper Testing capacity of the EU banking sector to finance the transition to a sustainable economy by the EBA also seems to suggest.
- In that regard, some common guidelines and content could be considered on a voluntary basis in order to provide comparable disclosures:
    a. **Green loans with use of proceeds in line with the Green Loan Principles but not taxonomy compliant** (activities not covered yet or not meeting the TSC).
    b. **KPI linked loans with climate targets**: (i.e. a KPI linked loan to an undertaking that has A% of turnover under EU taxonomy will be included here with the "100-A%"). They could be differentiated as follows :
        i. Those that have net zero climate targets in line with EU climate targets
        ii. Those that have climate targets but not net zero
    c. **ESG linked loans** as they promote the embedding sustainability into decision-making of the undertakings, including climate action. (i.e. a KPI linked loan to an undertaking that has A% of turnover under EU taxonomy will be included here with the "100-A%")
    d. **Brokered green bonds**. It should include the total amount intermediated by the bank in green bonds issuance according to the Green Bond Principles and where the bank plays a bookrunner role

e. **Brokered KPI linked bonds**. It should include the total amount intermediated by the bank in KPI linked bonds issuance according to the Sustainability-Linked Bond Principles and where the bank plays a bookrunner role.

f. **Other green financing**

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

- The Pillar 3 disclosure framework promotes transparency as a main driver of market discipline in the financial sector, to reduce the asymmetry of information between credit institutions and users of information, and to address uncertainties on potential risks and vulnerabilities faced by banks. The Pillar 3 framework on prudential disclosures on ESG risks should thus allow investors and stakeholders to compare the sustainability performance of institutions and of their financial activities.

- From a purely 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 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 for example by the ACPR pilot exercise.

- Considering these consistency and comparability issues but also the fact that the outcome is scenario- and methodology-dependent, thus with a lot of assumptions and possible biases (not to mention the data quality issues), it does not seem reasonable to expect this information to be part of public disclosures as there would be a major risk of misinterpretation. Forward-looking non-financial disclosures are consequently premature.

- The template includes only static quantitative information and does not take into account the transition effort at level of counterparts which is essential to understand the transition risk of our counterparts.