ONLINE EVENT

Launch of the Report of the C-ESG Risk Roundtable Data Workstream

Wednesday, 29 November 2023
10:00 AM - 11:30 AM (CET)
Meet the speakers

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Senior Team Lead, European Central Bank

Pilar Gutierrez
Head of the Reporting and Transparency Unit, European Banking Authority

Brent Matthies
Head of ESG Framework and Coordination, Nordea

Denisa Avermaete
Senior Policy Adviser – Sustainable Finance, European Banking Federation
Intro to data workstream report

- The Data Workstream was kicked off in May 2023, focusing on four main metrics where banks are expected to most comparably report by year-end 2023 within their ITS Pillar III disclosures:
  - Financed emissions,
  - Physical hazard exposures,
  - Green Asset Ratio and,
  - Top 20-carbon intensive firms.

- The objective of the work was to identify the commonly applied practices by participating banks against the Implementing Technical Standards (ITS) on prudential disclosures of ESG risks.

- Each of the four metrics in scope were analyzed in specific working groups, resulting in identification and agreement on targeted suggestions to improve transparency, addressing one or more of the following areas of uncertainty:
  - **Data-related challenges**: in the context of this report are described as challenges in the accessibility of the relevant datapoints, uncertainty of the applied data, and data sourcing difficulties.
  - **Methodological challenges**: in the context of this report are described in the context of either limited or vague guidance on specific metrics, resulting in differing interpretations and non-comparable practices across the industry.
Overview of the approach & key outcomes

The work was kicked-off with an extensive data collection exercise, followed-up by three working group meetings. Based on the results of the data collection and formal discussions, the targeted suggestions were created and approved by all participants for each of the four metrics in scope of the workstream.

Key outcomes of the report include the following:

- **Consolidated view on current status**, an overview of the industry operating environment for C&E-related data was established focusing on four metrics where guidance remains fragmented & data quality low;

- **Rank ordering of uncertainty statuses**, a cross-metric summary matrix, with rank ordering of data and methodological uncertainties, was compiled & compared to existing European data quality enhancement plans; and,

- **Detailed specifications to enhance transparency**, for the identified key uncertainty points suggestions, on how to more transparently disclose, were presented to increase comparability and mitigate potential greenwashing.

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**Fig. Approach to drafting the report**

1. Creation of a survey, data collection and consolidation of results among 12 C-ESG banks

2. Discussions among small groups at metric level

3. Joint meeting to consolidate conclusions and proposed suggestions

4. Joint conclusion meetings in July and September to review the outcomes

5. Final draft report approved in October
Focus on cross-metric summary

The cross-metric summary provides an accurate picture of the current state where banks are operating, in terms of their prudential disclosures:

- Data and methodological uncertainty varies across the metrics in scope, where the uncertainty ranges from low to high.
- For most of the disclosed metrics, plans to enhance the quality of the disclosures are yet to be established on a European level.
- Apart from one metric, banks are broadly required to disclose their estimates during 2023, even though data quality is low (relying heavily on estimates) and methodological guidance remains scattered.

Fig. Cross-metric summary of the metrics in scope of the report, with indicative estimates for levels of uncertainty within data and methodological challenges, plans for data quality enhancements at a European level, and relevant ITS Pillar III disclosure timeline:

<table>
<thead>
<tr>
<th>METRIC</th>
<th>DATA UNCERTAINTY</th>
<th>METHODOLOGICAL UNCERTAINTY</th>
<th>EUROPEAN QUALITY ENHANCEMENT PLANS</th>
<th>PILLAR III DISCLOSURE MILESTONE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financed emissions</td>
<td>High</td>
<td>Medium</td>
<td>Yes, European Single Access Point from 2024 forward*&lt;sup&gt;1&lt;/sup&gt;</td>
<td>From 30th of June 2024 onwards</td>
</tr>
<tr>
<td>Physical Hazards</td>
<td>High</td>
<td>High</td>
<td>No active plan</td>
<td>From 31st of December 2022 onwards</td>
</tr>
<tr>
<td>Green Asset Ratio</td>
<td>Medium</td>
<td>Medium</td>
<td>No active plan</td>
<td>From 31st of December 2023 onwards</td>
</tr>
<tr>
<td>Top 20 carbon intensive list</td>
<td>Low</td>
<td>Medium</td>
<td>No active plan</td>
<td>From 31st of December 2022 onwards</td>
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</tbody>
</table>

* Low* Data and methodological uncertainties are limited in number and scope, with guidance gaps easily identified.
* Medium* Data and methods uncertainties are more numerous in number and broader in scope, with guidance gaps more difficult to address.
* High* Data and methods uncertainties are broad based with unclear guidance gaps requiring significant further development.

* Proposed timeline for ESAP becoming operational, final decision pending.
Summary of the targeted suggestions

- The main findings of the Data Workstream are presented in the form of targeted suggestions, where banks globally may seek to implement into their disclosure practices.

- The purpose of the suggestions is to provide further guidance on how to increase transparency across disclosures. By nature, the metrics in scope include different types of suggestions, including points addressing either data or methodological uncertainties.

- Additionally, the summary tables includes a third column describing the specific areas addressed by complying with a specific suggestion. The relevant areas are increase in disclosure comparability, improvements in disclosure accuracy and actions mitigating greenwashing.

### Table. Summary of the targeted suggestions: 1) Financed emissions, 2) Physical Hazards, 3) Top 20-carbon intensive firms and 4) Green Asset Ratio.

<table>
<thead>
<tr>
<th>Suggestion</th>
<th>Addressing data or methodological uncertainties</th>
<th>Area addressed by complying</th>
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<tr>
<td>1</td>
<td>To address data uncertainties, banks may be transparent in disclosing exposures to different portfolios, such as underlying issuers, concentrations from Customer group disclosures, filling disclosed gaps, and containing unattributable GHI emissions and financial exposure data.</td>
<td>Data</td>
<td>2</td>
<td>To address data and methodological uncertainties, banks may align key definitions at an equal granularity across dimensions (e.g., asset location, hazard scenario with enhanced transparency in the data sources applied for each.</td>
<td>Data &amp; Methodology</td>
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<td></td>
<td>To address methodological uncertainties, banks may define the basis for assessing the materiality of excluded portfolios, describe the excluded portfolios and materiality thresholds, and how the exclusions are developed. Any base level deviations or methodological or definitions to consistent accounting standards (e.g., IFRS).</td>
<td>Methodology</td>
<td></td>
<td>To address methodological uncertainties, banks may align how methodology, provide clear definitions of the types of hazards and time horizons considered.</td>
<td>Methodology</td>
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<td>To address methodological uncertainties, banks may introduce the relative impact of baseline or trend volume realizations, or the data for comparability, and provide insights into strategic objectives.</td>
<td>Methodology</td>
<td></td>
<td>To address further comparability challenges, banks (physical) hazard exposure may be reported in several tables to provide a more accurate picture of vulnerabilities by excluding exposures that are less transparent or not comparable, or aggregated tables for all relevant exposures may be disclosed.</td>
<td>Data</td>
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<td>To address data and methodological uncertainties, banks may ensure the information of data quality indicators and trend or materiality developed process, including definitions of applicable thresholds and core assumptions impacting reported values.</td>
<td>Data &amp; Methodology</td>
<td>3</td>
<td>To address data uncertainties, banks may disclose the use of scoped Energy Performance Certificates (EPCs) or SEPA, use of external energy consumption data and associated definitions for CAR and ETTA, and process and definitions for verification of HREED counterparty for CAR and ETTA.</td>
<td>Data</td>
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<td>To address data and methodological uncertainties, banks may report the basis of selecting the Top 20-carbon intensive firms list and level of prevalence applied in defining the counterparts.</td>
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THANK YOU FOR JOINING US!

The recording of this event will be available tomorrow!

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