

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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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.

OBJECTIVE AND SCOPE OF THIS REPORT

This report is a result of joint work of the WS members facilitated by Nordea Bank Abp in its role as Data WS chair. The scope of the ESG Roundtable in this phase of collaboration was to identify commonly applied practices for addressing data and methodological uncertainties associated with disclosures against the Implementing Technical Standards (ITS) on prudential disclosures ESG risks[1]. Identifying practices across a selection of banks aimed at facilitating more transparent cross-bank disclosures by industry, and in doing so mitigate a lack of comparability and/or potential greenwashing for the uncertainties in scope. Specifically, the DWS participants sought to achieve this objective, under the ITS on Pillar III disclosures on ESG-related risks, through a series of targeted suggestions.



The targeted suggestions presented in this report are on a metric-specific level, with the following four metrics of the ITS on Pillar III disclosures on ESG-related risks in the scope:

- **Financed emissions**
- **Physical Hazard Exposures**
- **Green Asset Ratio (GAR)**
- **Top 20-carbon intensive firms**

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.

Fig. Approach to drafting the report



Focus on cross-metric summary

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:

- 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.

METRIC	DATA UNCERTAINTY	METHODOLOGICAL UNCERTAINTY	EUROPEAN QUALITY ENHANCEMENT PLANS	PILLAR III DISCLOSURE MILESTONE
Financed emissions	High	Medium	Yes, European Single Access Point from 2024 forward*	From 30th of June 2024 onwards
Physical Hazards	High	High	No active plan	From 31st of December 2022 onwards
Green Asset Ratio	Medium	Medium	No active plan	From 31st of December 2023 onwards
Top 20-carbon intensive list	Low	Medium	No active plan	From 31st of December 2022 onwards

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.*

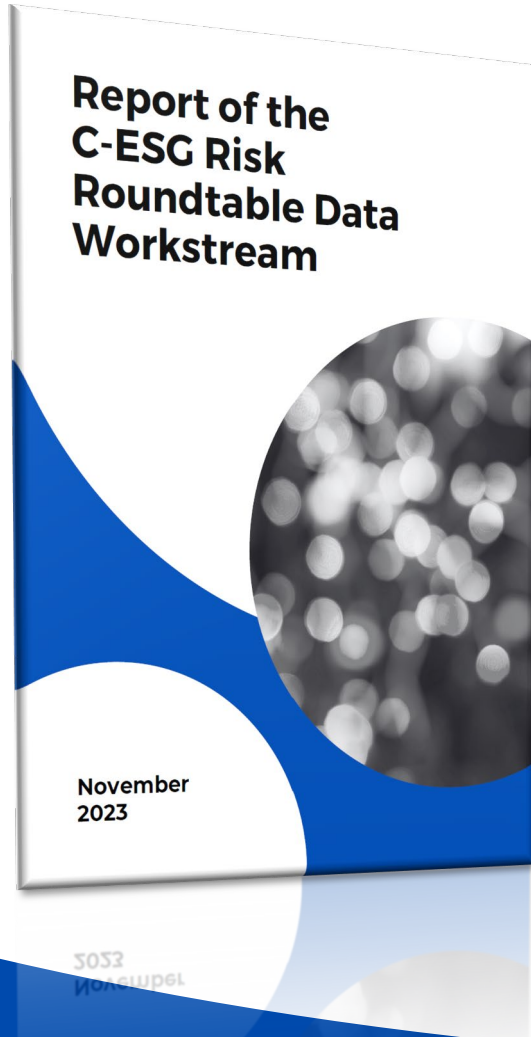
Summary of the targeted suggestions

- 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.

1	Targeted suggestions to enhance disclosure transparency	Addressing data or methodological uncertainties	Area addressed by complying	2	Targeted suggestions to enhance disclosure transparency	Addressing data or methodological uncertainties	Area addressed by complying
	To address data uncertainties, banks may be transparent in allocating exposures to different portfolios, aim at explaining how cascading Greenhouse gas (CHG) emissions from Customer group downwards, filling dataset gaps, and combining misaligned CHG emissions and financial exposure data.	Data	Disclosure comparability		To address data and methodological uncertainties, banks may align key datapoints at an equal granularity across dimensions (e.g., asset location, hazard scenarios) with enhanced transparency in the data sources applied for each.	Data & Methodology	Disclosure comparability
	To address methodological uncertainties, banks may define the basis for assessing the materiality of excluded portfolios, describe the excluded portfolios where materiality requirements are met, or describe the development of any bespoke deviations or methodological additions to committed accounting standards (e.g., PCAF).	Methodology	Disclosure comparability & Greenwashing mitigation		To address methodological uncertainties, banks may align key terminology, provide structured descriptions of the types of hazards and time horizons considered.	Methodology	Disclosure comparability & Disclosure accuracy improvement
	To address methodological uncertainties, banks may introduce the relative impact of baseline or trend volume recalculations, the basis for recalculation, and applied recalculation policies, especially in reporting against strategic objectives.	Methodology	Disclosure accuracy improvement		To address further comparability challenges, banks physical hazard exposures may be reported in several tables to provide a more accurate picture on vulnerabilities by geographical area. However, to support comparability, an aggregated table for all relevant exposures may be disclosed.	Data	Disclosure comparability & Greenwashing mitigation
	To address data and methodological uncertainties, banks may ensure the introduction of data quality indicators and describe internally developed proxies, including definitions of applied methodologies and scope assumptions impacting reported volumes.	Data & Methodology	Disclosure comparability & Greenwashing mitigation	4	Targeted suggestions to enhance disclosure transparency	Addressing data or methodological uncertainties	Area addressed by complying
3	Targeted suggestions to enhance disclosure transparency	Addressing data or methodological uncertainties	Area addressed by complying		To address data uncertainties, banks may disclose the use of expired Energy Performance Certificates (EPC's) for BTAR, use of external energy consumption data and associated definitions for GAR and BTAR, and process and definitions for identification of NFRD counterparties for GAR and BTAR.	Data	Disclosure comparability
	To address data and methodological uncertainties, banks may report the basis of selecting the Top 20-carbon intensive firms list and level of granularity applied in defining the counterparties.	Data & Methodology	Disclosure comparability & Greenwashing mitigation		To address methodological uncertainties, banks may present the application of Do No Significant Harm (DNSH) and Minimum Social Safeguards (MSS) criteria.	Methodology	Disclosure accuracy improvement & Greenwashing mitigation

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