EBA roadmap on ESG

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Part 1. Introduction to EBA work

- EBA mission
- EBA in the context of the EU Banking Union
- EBA priorities in 2022

About the EBA (1/3)

- An independent EU agency established on 01 January 2011, which took over all tasks and responsibilities from the Committee of European Banking Supervisors (CEBS).
- Mission: to build a single regulatory and supervisory framework for the entire banking sector in the 27 EU Member States, so as to ensure an efficient, transparent and stable Single Market that is beneficial to consumers, businesses and the broader economy in the EU.

Develop an European Single Rulebook

Promote supervisory convergence and cross-border supervisory cooperation

Assess risks and vulnerabilities across the EU banking system

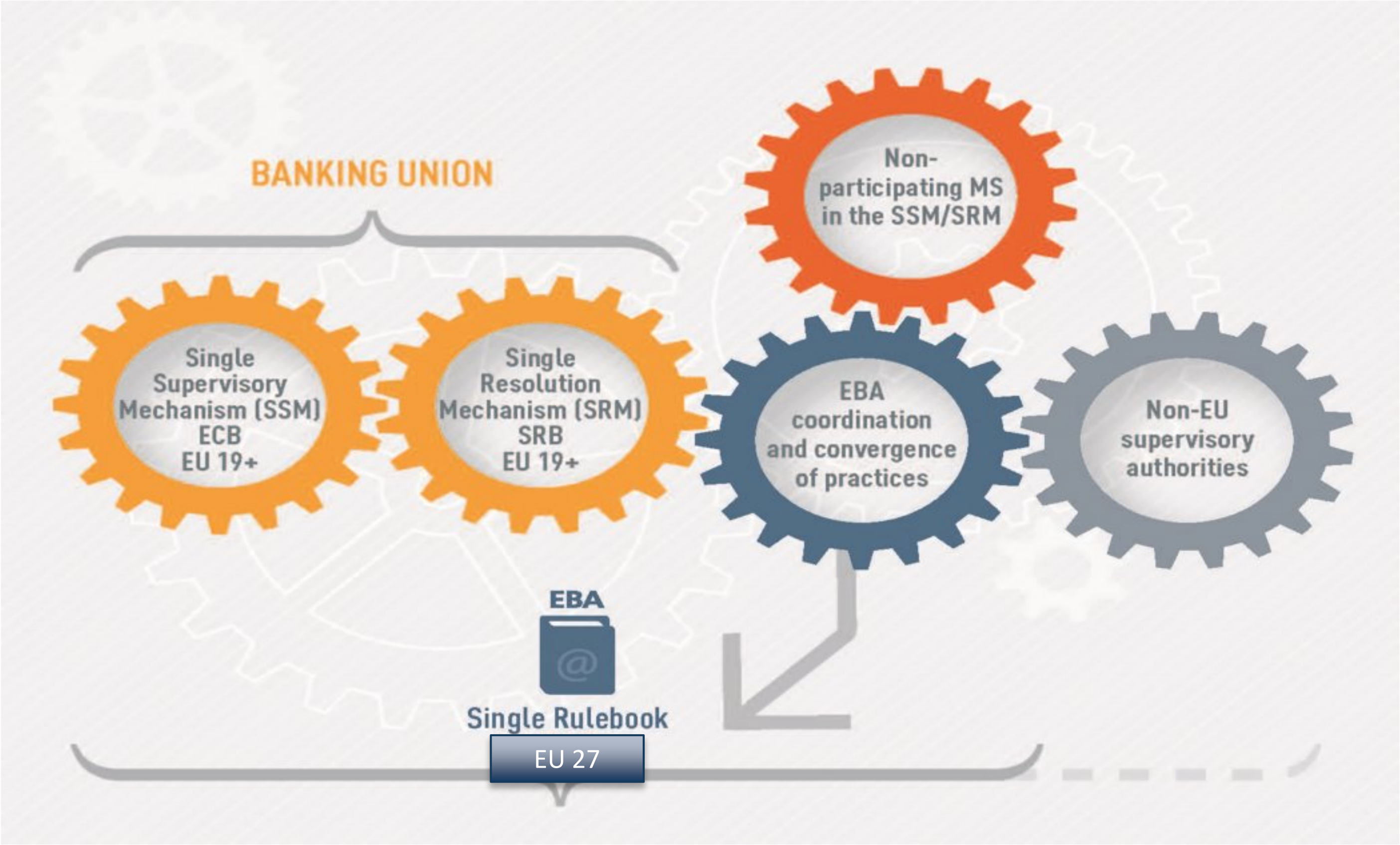
Enhance consumer protection

Other tasks (AML, breach of Union law, cross border mediation, advisory to EP, EC, EC)

- To perform these tasks, the EBA can produce regulatory and non-regulatory documents including binding Technical Standards, Guidelines, Recommendations, Opinions and ad-hoc or regular reports.

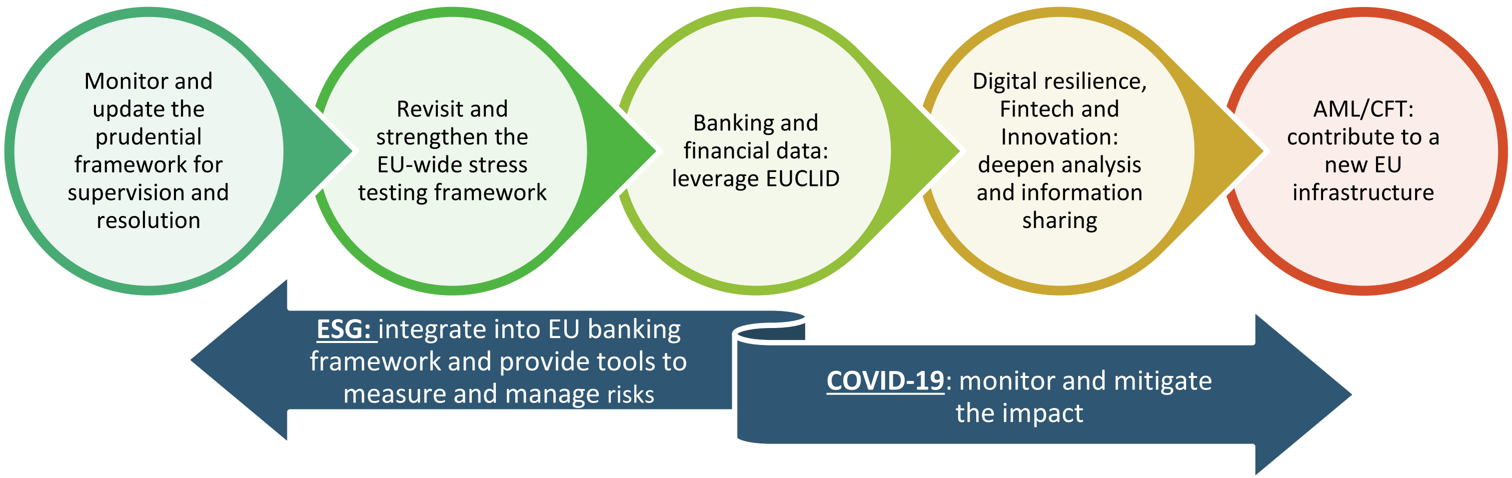
About the EBA (2/3)

- **EBA in the context of the EU Banking Union**



About the EBA (3/3)

- **EBA priority works in 2022**



- ESG is an horizontal priority for the EBA.
- Ongoing and future ESG work covers issues that cut across the entire regulatory spectrum – the focus is on anchoring ESG definition and risk aspects within the regulation, supervisory practices and credit institutions' risk management.
- Already completed works on Taxonomy and disclosures provide a good framework for guiding and supporting future efforts.
- Commissions renewed sustainable finance strategy published in July 2021 resulted in new ESG related mandates for the EBA.
- Close coordination with EC, BCBS, NGFS, ECB/SSM, ESAs and NCAs is needed to ensure that public sector initiatives continue to reinforce one another.

Part 2. EBA work on ESG

- Overview
- Pillar 3
- Pillar 2
- Pillar 1
- Standards and labels
- Other

Overview

Pillar 3 disclosures on ESG risks under Art. 449a CRR

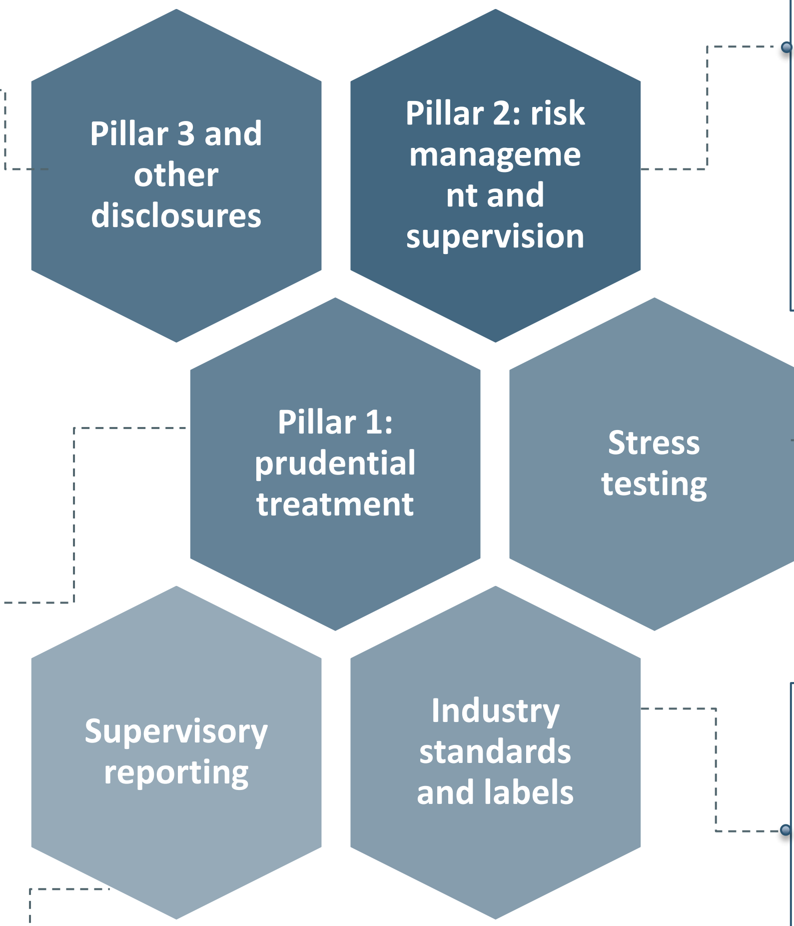
EBA's advice to EC on Art. 8 of the Taxonomy Regulation

Joint ESAs RTS under Sustainable Finance Disclosure Regulation and Taxonomy Regulation

Joint ESAs RTS on sustainability disclosures for STS securitisation *(under development)*

EBA discussion paper leading to a report under Art. 501c CRR and Art. 34 IFR - prudential treatment of exposures *(under development)*

Proposed point (h) of Art. 430(1) CRR – inclusion of banks' exposures to ESG risks in supervisory reporting *(planned)*



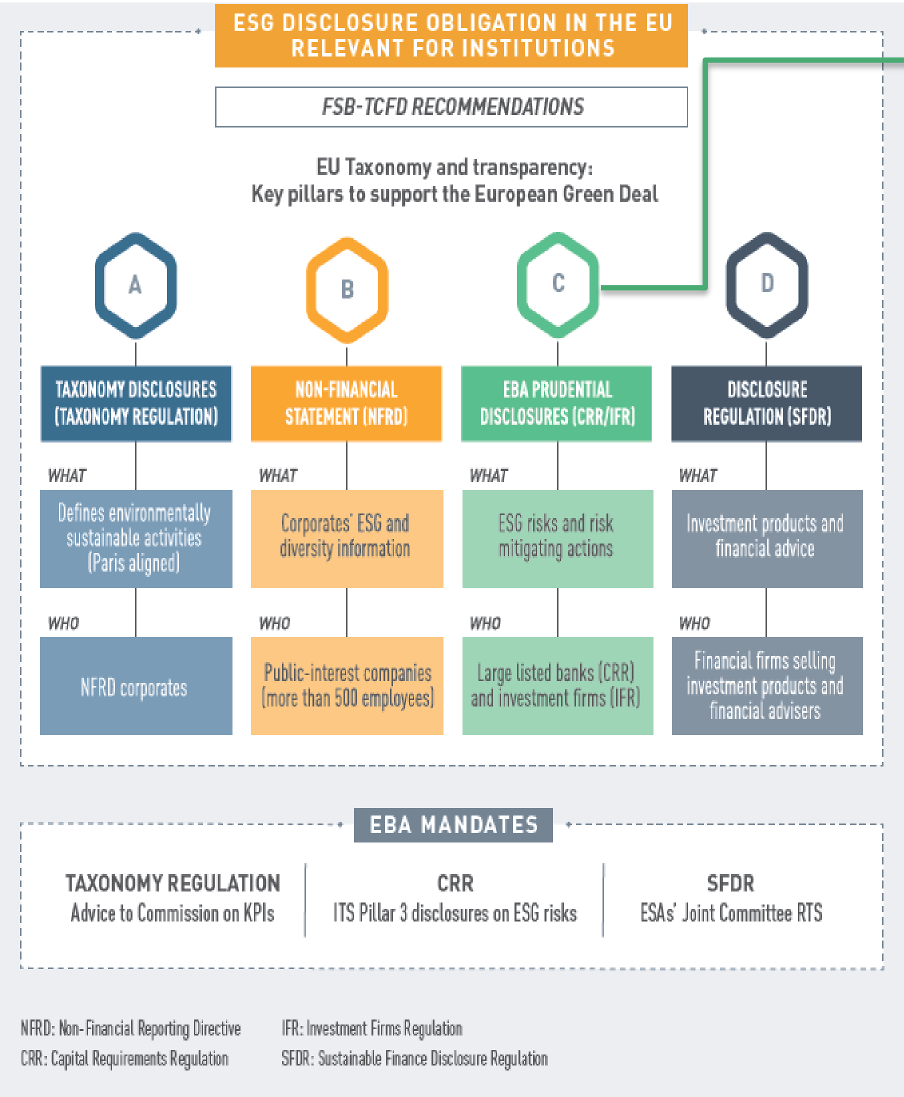
Report on ESG risk management and supervision under Art. 98(8) CRD and Art. 35 IFD - integration of ESG considerations in banks' business strategy, governance arrangements and risk management, further work planned on ESG risk management and supervision

EBA EU-wide pilot exercise on climate risk (2020-2021) and current preparations to meet future mandates: develop methods, scenarios, and run stress test

Renewed Sustainable Finance Strategy

- EU Green Bonds Standard *(in the legislative process)*
- Report on sustainable securitisation
- Advice on green retail loans and mortgages *(planned)*
- Advice on green washing *(planned)*

Pillar 3 : ESG disclosures



EBA ITS on ESG risks disclosures

Climate transition risk (asset quality): Banks' exposures to high carbon sectors and their counterparties' scope 1, 2 and 3 emissions	**Climate transition risk (collateralised loans)**: Loans collateralised by immovable property (RRE and CRE) and their energy efficiency	**Metrics on the alignment** of **banks' exposures** towards international sustainability goals, e.g. IEA NZE2050 scenario	**Climate physical risk**: banks' exposures (and their maturity) that are subject to physical risk	**Mitigating actions: GAR Full alignment (content and timeline) with COM DA** on Art. 8 of the of Taxonomy Regulation **BTAR** (symmetric treatment of exposures in numerator and denominator)	**Other mitigating actions** (beyond taxonomy-aligned), e.g. instruments with proceeds dedicated towards sustainable activities

- Qualitative information on all three aspects of ESG, quantitative information on climate change transition and physical risks
- First disclosures are expected in Q1 2023 on end-2022 reference date
- The EBA acknowledges that lack of data availability is a key challenge for banks. Various regulatory efforts aim to close data gaps in markets. Banks are expected to use their counterparties' disclosures but also enter into dialogue with them to collect relevant data through loan origination and monitoring process.

Pillar 2 – ESG risk management and supervision

- Current practices illustrate a growing recognition of the potential materiality of ESG risks, but much progress remains to be done.
- EBA Report on ESG risks management and supervision published in June 2021: definitions, methodologies, risk management and supervision recommendations
- **ESG risk management :** three main areas where ESG should be incorporated:
  - ✓ Business strategies and business processes (EBA Guidelines on loan origination and monitoring)
  - ✓ Governance arrangements (EBA Guidelines on internal governance and on remuneration)
  - ✓ Risk management process, including stress testing (planned EBA Guidelines on ESG risks management under CRD6)
- **ESG risk supervision :**

Integration into existing SREP requirement

- Business model analysis
- Internal governance
- Risks to capital and capital adequacy
- Liquidity and funding risks and liquidity adequacy

Principle of proportionality

Smaller institutions are not immune to ESG risks but intensity of ESG SREP assessment may vary

Phase-in approach

Short-term: inclusion into business model analysis and internal governance assessment

Medium-longer term: inclusion into risks to capital and risk to liquidity, leaving time to build data and tools

More prominence to E in the first steps

- Next steps: EBA SREP (Supervisory Review and Evaluation Process) Guidelines to be updated to include ESG risks

Pillar 1 – Prudential treatment of ESG exposures

Discussion Paper (Q2 2022) → Evidence gathering (2022-2023) → Final report (2023)

Scope of Discussion Paper

- Pillar 1 framework for credit institutions and investment firms
- Focus on environmental risk
- The most relevant areas of the framework: credit risk, market risk, operational risk, concentration risk, investment firms
- No conclusions or recommendations yet, rather initial ideas and questions

Final report

- To cover environmental and social risks
- Commission's proposal to anticipate the deadline from 2025 to June 2023
- Mandate focused on methodologies and criteria, as well as potential effects of a dedicated prudential treatment of exposures subject to impacts from environmental and/or social factors

Standards and labels

- **EBA report on sustainable securitisation (published in March 2022)**

EBA is proposing **a pragmatic approach** to green securitisation to allow securitisation to play a role in the financing of the transition toward a greener economy:

- ✓ Aligned with the Green Bonds Standard, i.e. relying on use of proceeds and not the underlying assets – to avoid fragmentation in the EU standards
- ✓ Proposals to adjust the EU Green Bonds Standard
- ✓ Interim solution to allow the EU sustainable market to grow
- ✓ Careful disclosure and monitoring will be needed
- ✓ In the medium-term, a specific securitisation solution should be re-assessed
- ✓ Too early to look at a social securitisation (no harmonised definition of social investments)

- **Further work on labelling expected based on the Commission's Renewed Sustainable Finance Strategy**

- ✓ EBA Opinion on the definition and possible supporting tools for green retail loans and green mortgage
- ✓ Advice on greenwashing & supervisory power (in coordination with other ESAs)
- ✓ Commission and ESAs to develop sustainable loans and bonds standards

And also…

ESG risk monitoring & identification

- ***Monitoring system*** : *EBA to put in place a monitoring system to assess material ESG risks including extension of supervisory reporting to capture ESG risks.*
- **Framework for systemic monitoring of climate-related financial stability risks** : *COM envisages systemic, joint monitoring by EC, ECB, ESAs, NCAs of climate-related financial stability risks.*

Stress testing

- **Guideline on internal stress testing for institutions** : *EBA to provide guideline on how institutions should test their resilience to climate change risks and long-term negative impacts.*
- **Regular climate risk stress testing** : *EBA to perform regular climate change stress tests or scenario analyses, using a bottom-up approach.*
- **Conduct coordinated sectoral climate stress tests with other ESAs** : *one-off exercise, ESAs together with the ECB to conduct a coordinated, bottom-up and top-down EU-level climate change stress test to assess the resilience of the financial sector in line with the Fit-for-55 package.*
- **Developing supervisory stress testing methods** : together with other ESAs develop guidelines to ensure that consistency, long-term considerations and common standards for assessment methodologies on ESG risks are integrated in supervisory stress testing

Macroprudential toolkit

- **Advice on the review of the macroprudential framework** : *EBA to assist COM in assessing whether the macroprudential toolkit is suitable to address climate-change related financial systemic risks. COM in turn to consider possible legislative proposal for amending the macroprudential framework.* (Q2 2022)

Thank you!

For more information on the EBA’s work on Sustainable Finance: https://www.eba.europa.eu/financial-innovation-and-fintech/sustainable-finance

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