



EUROPEAN CENTRAL BANK

EUROSYSTEM

Supervisory assessment of institutions' climate- related and environmental risks disclosures

ECB report on banks' progress
towards transparent disclosure of
their climate-related and
environmental risk profiles

BANKENTOEZICHT

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Contents

Executive summary	2
1 Introduction	6
2 Regulatory background on climate-related and environmental risk disclosures	7
2.1 Corporate disclosure standards affecting credit institutions	7
Box 1 Focus on the role of the European Financial Reporting Advisory Group	9
2.2 Bank-specific disclosure standards	10
3 Set-up of the 2021 assessment	12
3.1 Context of the assessment	12
3.2 Scope, sample and objectives of the assessment	13
4 Observations on alignment with ECB expectations as regards climate-related and environmental risks disclosures	15
4.1 Disclosure policies and risk profile transparency	15
Box 2 Verification and audit of climate-related and environmental disclosures	18
4.2 Content of disclosures	19
Box 3 Further observations on disclosures of institutions with a parent group headquartered outside the countries participating in European banking supervision	22
5 Further observations on metrics, targets and commitments	24
5.1 Selected metrics	24
Box 4 Article 8 of the Taxonomy Regulation	28
5.2 Targets and commitments	29
Box 5 Achieving net zero – commitments from banks	30

Executive summary

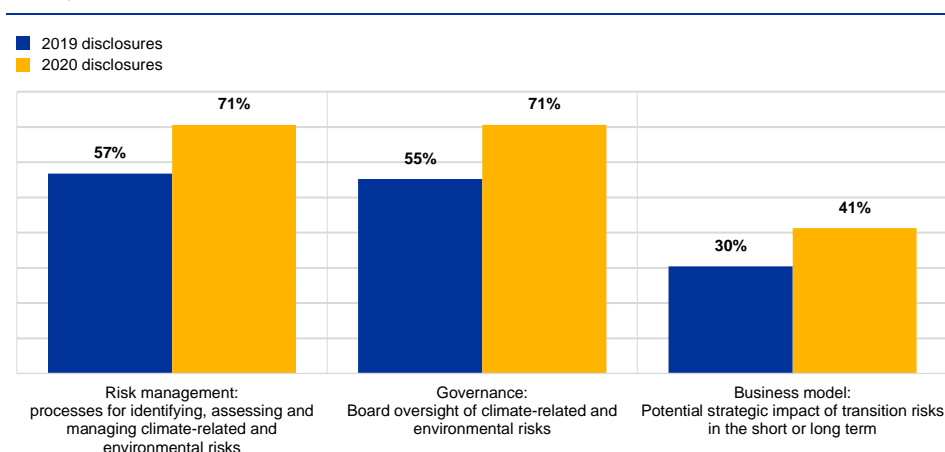
As part of the supervisory work on the transparency of banks' risk profiles, and following the inclusion of climate-related and environmental risks in ECB Banking Supervision's supervisory priorities for 2022-24, the European Central Bank (ECB) is publishing its second snapshot of the level of disclosure of climate-related and environmental risks among significant institutions. In line with the ambitious objectives set by the European Commission for sustainable finance, regulation of climate-related and environmental risk disclosures is expected to become increasingly stringent and to have a very clear impact on banks' disclosures in the coming years.

The stocktake published on 27 November 2020 demonstrated that virtually none of the institutions in the scope of the assessment would meet the minimum level of disclosures set out in the "ECB Guide on climate-related and environmental risks" published on the same date. Following this baseline measurement, the ECB conducted a supervisory assessment on climate-related and environmental risk disclosures, with a view to identifying key gaps. The assessment also considers the extent to which banks' disclosures are well-substantiated and provides a preliminary indication of their preparedness for upcoming requirements. This report presents a bird's-eye view of its findings.

Overall, the gap analysis shows that institutions have shown clear progress in various areas compared with last year.

Chart 1

Overview of the progress made by institutions on describing selected indicators in their public disclosures



Source: Supervisory assessment based on institutions' disclosures with a reference date of end-2019 (2019 disclosures) and end-2020 or later when available (2020 disclosures).

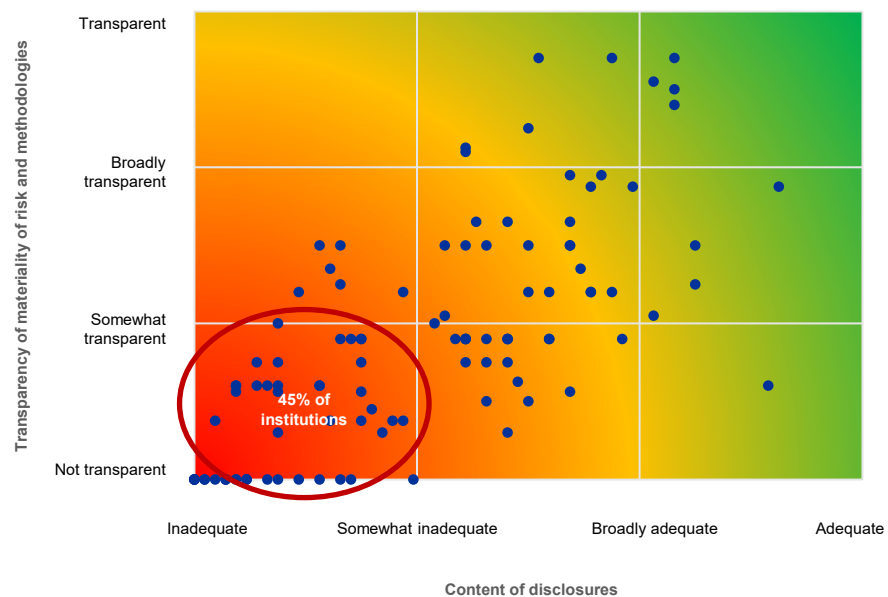
However, most institutions still need to make significant efforts to transparently disclose their exposures to climate-related and environmental risks and further improve their disclosure practices. The ECB has therefore sent individual feedback

letters to the banks under its supervision setting out key gaps in their disclosures and expects them to take decisive action to ensure they convey their risk profile comprehensively. Addressing such gaps will also accelerate institutions' preparedness for meeting impending technical requirements.

Chart 2

The state of climate-related and environmental risk disclosures in the banking sector in terms of content and transparency

(y-axis: the level of alignment of 109 institutions' disclosures with the supervisory expectations set out in the ECB Guide on transparency and substantiation; x-axis: the level of adequacy of 109 institutions' disclosures as regards the expectation set out in the ECB Guide on the content of disclosures)



For the second year in a row, the analysis showed that virtually none of the banks disclose all the basic information on climate-related and environmental risk that would align with all of the ECB's expectations. While some progress could be observed as regards the disclosure of qualitative information, 45% of the banks' disclosures were even assessed as insufficient from both the content and substantiation perspectives. Against that backdrop, and to assess the extent to which the banks have addressed individual feedback, climate-related and environmental risk disclosures will continue to feature prominently in the ECB's supervision.

With regard to the transparency of the materiality of risks and methodologies, the supervisory review demonstrated that one-third of institutions do not yet transparently disclose that they are materially exposed to climate-related and environmental risks in line with their internal materiality assessments. Overall, institutions still scarcely substantiate their climate-related and environmental metrics and targets, for instance in terms of their commitment to align with Paris Agreement objectives: only about one in five institutions disclose the methodologies, definitions and criteria for all of the figures, metrics and targets reported as material. Conversely, more than one-third of institutions do not disclose these aspects at all.

Owing to the growing importance of such commitments and given the number of banks subscribing to net zero initiatives, such as the Glasgow Financial Alliance for Net Zero (GFANZ) and publishing alignment metrics, it can be expected that users of banks' disclosures will increasingly seek information on the methodologies, definitions and criteria relating to these commitments and the corresponding metrics and targets.

As regards the content of disclosures, the supervisory review concluded that they remain sparse and heterogeneous across the board. Some banks publish dedicated climate-related and environmental risk reports with extensive qualitative and quantitative information, while other banks report on climate-related risks only to a marginal extent, or solely in the context of corporate sustainability, with inherent confusion between the impact of the banks' operations and that of the activities it finances.

Table 1
Overview of the institutions that disclose basic climate-related and environmental risk information that would align with ECB expectation 13 and related sub-expectations

Topic	Expectation	Disclosure practices	Percentage
Transparency of disclosures	13	Does the institution disclose that its exposure to climate-related and environmental risks is material?	36%
	13.3	Does the institution disclose methodologies, definitions and criteria associated with any figure, metric or target reported?	21%
Content of disclosures	13.4	Does the institution describe the potential strategic impact of transition risks in the short or long term?	41%
		Does the institution describe the board's oversight of climate-related and environmental risks?	71%
		Does the institution describe the organisation's processes for identifying, assessing and managing climate-related and environmental risks?	71%
		Percentage of institutions that disclose all of the information set out in Expectation 13.4	39%
	13.5	Does the institution disclose its Scope 3 financed emissions?	15%
	13.6	Does the institution disclose its key performance indicators or key risk indicators associated with its strategy-setting?	49%
	Percentage of institutions that disclose all of the information set out in Expectations 13.4-13.6	6%	
Other environmental risk disclosures	13.7	Does the institution disclose key information on environmental risks other than climate-related risks?	25%

Source: Supervisory assessment based on 109 institutions' disclosures with a reference date of end-2020 or later when available.

In the context of the Corporate Sustainability Reporting Directive (CSRD) and upcoming Implementing Technical Standards by the European Banking Authority (EBA ITS), banks subject to these rules will have to disclose specific metrics showing the extent to which their assets are aligned with the EU Taxonomy and specific transition alignment metrics. The current report demonstrates that banks' current disclosures are not sufficient to meet future regulatory disclosure requirements. For instance, while 74% of banks in the sample declare that they disclose Scope 1, 2 and 3 greenhouse gas (GHG) emissions,¹ only 15% actually disclose (some of their) financed emissions. Moreover, only 12% of the banks

¹ In accordance with the GHG Protocol.

disclose metrics on their portfolio alignment. While the ECB encourages banks to disclose the results of such exercises, the selection of portfolios and the related reference scenarios do not always ensure a representative view of the risks that the institution faces. Lastly, a quarter of the banks in the sample make a qualitative reference to the EU Taxonomy, while only 7% provide quantitative information in connection with it.

1 Introduction

Achieving the objective of the Paris Agreement to limit temperature increase to 1.5 degrees Celsius requires a massive transition of the economy, with all sectors affected. It means that banks, like other financial sector participants, will need to adjust their business models and develop plans to align their balance sheets with this transition. Transparency on the risk profiles of banks and on their tangible efforts to align their portfolios will give market participants meaningful information with which to compare banks' risk profiles, including potential revaluations of assets in the event of misaligned trajectories.

In its November 2020 report on institutions' climate-related and environmental risk disclosures², the ECB concluded that significant institutions did not yet comprehensively disclose their risk profiles and that significant efforts were still needed to promote transparency in the financial markets on the climate-related and environmental risks institutions were exposed to. Virtually none of the institutions in the scope of the assessment met the minimum level of disclosures set out in the ECB Guide, and in the related recommendations in the European Commission's "Guidelines on non-financial reporting: Supplement on reporting climate-related information" and of the Task Force on Climate-related Financial Disclosures (TCFD).

This report aims to again take stock of the climate-related and environmental risk disclosure practices of its significant institutions and to measure their progress against the ECB's expectations. It provides the ECB's main observations on those practices, areas for improvement and good practices. In the wake of the 26th UN Climate Change Conference of the Parties in Glasgow (COP26) from 31 October to 13 November 2021 and given the increasing number of commitments by banks to achieve net zero emissions, particular attention is dedicated not only to the metrics and targets disclosed by institutions, but also to the substantiation of those disclosures.

² See [ECB report on institutions' climate-related and environmental risk disclosures](#), November 2020.

2 Regulatory background on climate-related and environmental risk disclosures

2.1 Corporate disclosure standards affecting credit institutions

International initiatives

The work on climate-related and environmental risk disclosure is also accelerating internationally. In 2017 the Task Force on Climate-related Financial Disclosures (TCFD), which was established by the Financial Stability Board (FSB) to develop recommendations for more effective climate-related disclosures, issued its Final Report, which contained recommendations for helping businesses disclose climate-related financial information. These recommendations that apply across all sectors have been widely recognised as guidance on the reporting of financially material climate-related information, and a number of financial institutions in the sample assessed in this report already publish specific “TCFD reports”. The TCFD regularly publishes status updates and focus reports, for instance on metrics and targets.

Furthermore, on 3 November 2021 the International Financial Reporting Standards (IFRS) Foundation Trustees announced the creation of a new standard-setting board – the International Sustainability Standards Board (ISSB). The intention is for the ISSB to deliver a global baseline of sustainability-related disclosure standards that provide investors and other capital market participants with information on companies’ sustainability-related risks and opportunities. Its Climate-related Disclosures Prototype, published in November 2021, already provides a sense of direction of the future work of the Board and deals with disclosures related to governance, strategy, risk management, and metrics and targets.

Several initiatives are being developed as regards other environmental risks. The Taskforce on Nature-Related Financial Disclosures (TNFD) is in a preparatory phase for the development of a framework for organisations to report and act on evolving nature-related risks. The TNFD is focused on living nature and elements relating to living nature, such as air, soil and water. The framework will not be a new standard but an aggregator of the best tools and materials available to promote worldwide consistency for nature-related reporting. The TNFD framework will also adopt a four-pillar approach, structured around how organisations operate in terms of governance, strategy, risk management, and metrics and targets.

EU framework

The regulatory framework for sustainable finance has developed at a rapid pace over the past few years in the EU. A mandatory disclosures regime for financial and non-financial companies was already developed back in 2018 and constituted the second block in the EU action plan on financing sustainable growth. In 2021 the European Commission's revised Strategy for Financing the Transition to a Sustainable Economy proposed a series of ambitious actions to strengthen sustainability disclosures standards in the EU, for example by improving science-based target-setting, as well as disclosure and monitoring of the financial sector's commitments.

Corporate Sustainability Reporting Directive

On 21 April 2021 the European Commission adopted a proposal for a Corporate Sustainability Reporting Directive (CSRD) to amend the existing reporting requirements of the Non-Financial Reporting Directive (NFRD).³ The NFRD had proven insufficiently reliable and comparable, and investors were still finding it difficult to access data. Companies were also unsure which information to disclose and how to disclose it⁴. The CSRD is designed to ensure that companies report the relevant, comparable and reliable sustainability information needed by investors and other stakeholders.

The CSRD builds on the topics covered in the NFRD and requires companies to publish regular reports on the environmental, social and governance (ESG) impacts of their activities. The proposal includes the following amendments and improvements.

1. It extends the scope of the requirements to all large companies and all companies listed on regulated markets (except listed micro-enterprises).
2. It creates an audit (assurance) requirement for reported sustainability information for the first time.
3. It introduces more detailed reporting requirements (i.e. forward-looking information that covers short, medium, and long-term horizons) and, importantly, the requirement to report according to mandatory EU sustainability reporting standards adopted by the Commission via delegated act.
4. It requires companies to digitally "tag" the reported information, so it is machine-readable and can feed into the European single access point envisaged in the capital markets union action plan.

The Commission, the European Parliament, and the Member States in the EU Council, are currently negotiating a final legislative text on the basis of the proposal.

³ Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups (OJ L 330, 15.11.2014, p.1).

⁴ See "Questions and Answers: Corporate Sustainability Reporting Directive proposal", European Commission, 21 April 2021.

The final timetable will depend on how the Parliament and Council progress in their negotiations. The European Financial Reporting Advisory Group (EFRAG) has committed to sending a first set of draft standards to the Commission in June 2022. According to the draft timetable, the plan is for large companies to apply the standards for the first time to reports published in 2024, covering financial year 2023. Listed small and medium-sized enterprises (SMEs) will have another three years to prepare for the regulation.

Before adopting the standards, the Commission will consult all stakeholders to help ensure a broad consensus on the content and coherence with relevant EU legislation and policies.

Box 1

Focus on the role of the European Financial Reporting Advisory Group

The European Financial Reporting Advisory Group (EFRAG) is a private association established in 2001 with the encouragement of the European Commission. EFRAG is majority financed by the EU and operates on a public-private partnership model. Initially, its role was to advise the Commission on the incorporation of international financial reporting standards into EU law. In June 2020 the Commission gave EFRAG the mandate to undertake preparatory work for the creation of possible EU non-financial reporting standards in the context of the revision of the NFRD. In the April 2021 proposal for the corporate sustainability reporting directive (CSRD), EFRAG is identified as technical advisor to the European Commission and will provide the draft EU sustainability reporting standards. EFRAG established a group of 80 task force members, secretariat participants and observers representing EU institutions to:

- develop topical standards for environmental factors (climate change mitigation and adaptation, water and marine resources, resource use and the circular economy, pollution, biodiversity and ecosystems), social factors (equal opportunities, working conditions, and respect for human rights) and governance factors (supervisory bodies, business ethics and corporate culture, companies' internal control and risk management systems);
- contribute to international convergence by working with international initiatives, such as the GRI (Global Reporting Initiative) and the International Sustainability Standards Board (ISSB);
- liaise with the relevant areas within the European Commission to ensure consistency with the EU legal framework.

At the request of the Commission, EFRAG is currently reforming its governance by integrating the sustainability reporting activities into its organisational structure. This includes a sustainability reporting Board and a sustainability reporting Technical Expert Group. The target date for the new governance structure to be operational is the end of March 2022.

2.2 Bank-specific disclosure standards

While banks will be affected by several layers of regulation applicable to all corporates, some financial sector-specific guidelines and standards are also being developed at both international and EU level.

The Basel Committee is currently exploring using Pillar 3 of the Basel framework to promote a common disclosure baseline for climate-related financial risks across internationally active banks. This work will consider the availability and reliability of sufficiently granular data for banks and their counterparties, and of defined risk metrics. The Pillar 3 work is part of the Committee's holistic approach to addressing the range of climate-related financial risks to the banking system, spanning regulatory, supervisory and disclosure-related elements. This Pillar 3 work will be performed in cooperation with the ISSB.

In the EU, the EBA ITS⁵ on Pillar 3 disclosures on ESG risks were published in their final version on 24 January 2022. The ITS contain tables, templates and instructions that specify the requirement set out in Article 449a of the Capital Requirements Regulation (CRR)⁶ to disclose prudential information on ESG risks, including transition and physical risks, addressed to large institutions with securities traded on a regulated market of any EU Member State. The ITS include: (i) tables for qualitative disclosures on ESG risks, (ii) templates for quantitative disclosures on climate change transitional risk, (iii) a template for quantitative disclosures on climate change physical risk, (iv) templates for quantitative information and key performance indicators (KPIs) on climate change mitigating measures, including the green asset ratio (GAR). The ITS are applicable to large institutions with traded securities and provide for disclosure of an ambitious range of metrics, for instance in relation to financed emissions, alignment metrics and physical risk. Institutions must disclose this information from June 2022. The first disclosure will take place on an annual basis, and thereafter disclosures will take place twice-yearly. This means that the first disclosure will take place in 2023 for a disclosure reference date of end-December 2022.

In October 2021 the European Commission published a proposal to amend the CRR, under which the requirement to disclose information on ESG risks would be applied to all institutions, (i.e. beyond large, listed banks to which the existing requirement applies from 2022). However, the proposal also suggests that the future standards be tailored in terms of periodicity and detail to the size and complexity of the institutions, thus respecting the proportionality principle.

In its Guide on climate-related and environmental risks, ECB Banking Supervision published a set of expectations related to disclosures, relying on the provisions of Article 431 et seq. of the CRR. The expectations cover not only the content of the disclosures, but also the policies, processes, methodologies, definitions and criteria

⁵ EBA/ITS/2022/01, final report implementing technical standards on prudential disclosures on ESG risks in accordance with Article 449a CRR.

⁶ Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1).

associated with them. In terms of content, institutions are expected to disclose climate-related risks that are material, with due regard to the Commission's Supplement on reporting climate-related information. They are expected to disclose their GHG emissions for the whole group, including downstream emissions, as well as the KPIs and key risk indicators (KRIs) they use for strategy-setting and risk management.

3 Set-up of the 2021 assessment

3.1 Context of the assessment

In November 2020 the ECB published its Guide on climate-related and environmental risks, which set out supervisory expectations relating to risk management and disclosures. The Guide was accompanied by a report on climate-related and environmental risk disclosures, in which the ECB concluded that significant efforts were needed to promote transparency in the financial markets on the climate-related and environmental risks to which institutions are exposed to.

After the Guide was published, the ECB asked institutions to assess themselves against these expectations and to submit action plans detailing how they would bring their practices into line with the Guide. In November 2021 the ECB published the results of its supervisory assessment in a report on the state of climate-related and environmental risk management in the banking sector.⁷ Covering 112 institutions directly supervised by the ECB, with €24 trillion of combined assets, this supervisory assessment was an unprecedented stocktake of European banks' preparedness to adequately manage and disclose their exposure to climate-related and environmental risks. As part of this supervisory assessment, the ECB also assessed the disclosure policies of the institutions. Individual feedback letters were sent to each institution summarising the findings of the assessment.

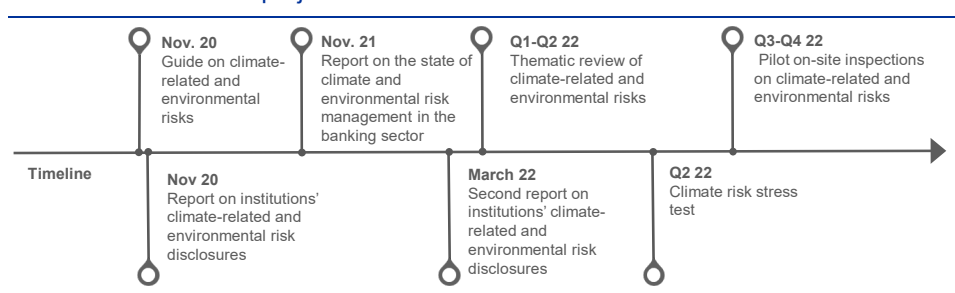
Against this background, ECB Banking Supervision, in cooperation with the national competent authorities, has performed a thorough assessment of the main risks and vulnerabilities faced by the significant institutions under its direct supervision and has set its strategic priorities for the next three years. One of the key priorities for 2022-24 has been to ensure that banks tackle emerging risks, including the risks stemming from climate change and environmental degradation.

With this in mind, the ECB has planned a number of supervisory activities for 2022. It will conduct a full review of banks' preparedness to manage climate-related and environmental risks, including deep dives on the incorporation of climate-related and environmental risks into their strategy, governance and risk management. This review will take place in the first half of 2022, in tandem with the execution of a bottom-up climate risk stress test and the development of best practices on climate stress testing. In parallel, the ECB will gradually integrate climate-related and environmental risks into its methodology for the Supervisory Review and Evaluation Process, which will influence Pillar 2 capital requirements, as well as its on-site inspection methodology.

⁷ ["The state of climate and environmental risk management in the banking sector: Report on the supervisory review of banks' approaches to manage climate and environmental risks"](#), ECB, November 2021.

Figure 1

Timeline of the ECB's projects on climate-related and environmental risks



Source: ECB.

3.2 Scope, sample and objectives of the assessment

3.2.1 Organisation of the assessment

This report is based on a supervisory assessment of institutions' publicly available disclosures with a reference date of 2020, or later where available.⁸ The information typically considered in the assessment included: annual reports, non-financial reports, sustainability reports and Pillar 3 reports. When relevant in the context of Pillar 3 disclosures, CDP reports and information available on institutions' websites were also considered. The ECB also took into account the documents submitted by the institutions in the context of its 2021 supervisory assessment of banks self-assessments.⁹ The supervisory assessment was conducted by the Joint Supervisory Teams.

Banks were informed of the outcome of the ECB's analysis of the gaps in their disclosures via individual feedback letters. They are expected to further advance their climate-related and environmental risk disclosures and to take decisive action to ensure that their disclosures comprehensively convey their risk profile and disclose information that is material. Banks' disclosure of climate-related and environmental risks will continue to feature prominently in the ECB's supervisory activities.

3.2.2 Characteristics of the sample

The assessment covered banks classed as significant institutions (SIs) as at 1 August 2021. It focused mainly on disclosures at the highest level of consolidation under European banking supervision. For large banks with a parent group outside the countries participating in European banking supervision, some disclosures at international consolidation level were taken into account, when relevant.

⁸ The latest available documents as at 1 November 2021 were considered.

⁹ See "ECB publishes final guide on climate-related and environmental risks for banks", *press release*, ECB Banking Supervision, 27 November 2020.

Table 2

Structure of the sample by country and balance sheet size

Country	AT	BE	BG	CY	DE	EE	ES	FI	FR	GR	IE	IT	LT	LU	LV	MT	NL	PT	SI	Total
> €500 billion in assets					3		3	1	5			2					2			16
€100 billion - €500 billion in assets	2	2			5		1	1	2		3	4					3			23
€30 billion - €100 billion in assets	2	3			13		6	1	3	4	2	4		2			2	3		45
< €30 billion in assets	3	1	1	3		3							3	2	3	3			3	25
Total number of significant institutions	7	6	1	3	21	3	10	3	10	4	5	10	3	4	3	3	7	3	3	109

3.2.3 Objectives of the assessment

The analysis underpinning this report aimed to: i) identify key gaps in climate-related and environmental risk disclosures in the light of the ECB's Guide on climate-related and environmental risks; ii) assess the substantiation of disclosures, i.e. the extent to which institutions report the methodologies, definitions and criteria underlying the disclosed figures; and iii) where relevant, identify practices that could be affected by upcoming regulatory changes.

The analysis was geared towards assessing the existence of key disclosure elements, including the disclosure of exposures to risks that banks deemed material, while the substance of those disclosures will be subject to further future supervisory focus. The gap analysis presented in this report should therefore not be considered exhaustive.

4 Observations on alignment with ECB expectations as regards climate-related and environmental risks disclosures

4.1 Disclosure policies and risk profile transparency

4.1.1 Disclosure policies

Expectation 13.1

Institutions are expected to specify in their disclosure policies key considerations that inform their assessment of the materiality of climate-related and environmental risks, as well as the frequency and means of disclosures.

Expectation 13.1 sets out the expectation that banks reflect climate-related and environmental risks in their disclosure policies. Institutions are expected to assess the appropriateness of their disclosures and to specify key considerations underpinning the assessment of the materiality of the climate-related and environmental risk information to be disclosed.

As highlighted in a recent ECB report,¹⁰ only a small subset of institutions have explicitly integrated climate-related and environmental risks into their disclosure policies. The vast majority of institutions have not integrated the considerations that inform their assessment of the materiality of climate-related and environmental risk information for financial decision-making. While over 20% of institutions disclose the outcome of their assessment of the materiality of information in their public disclosure report, only one institution has included the underlying considerations for this assessment in its internal disclosure policy.

It is important for disclosure policies to specify how the materiality of information on climate-related and environmental risks is assessed, as this assessment drives decisions on whether to disclose the information. The disclosure policy should stipulate that any conclusions on the materiality of information should be transparently substantiated.

4.1.2 Transparency of the risk profile

Expectation 13

For the purposes of their regulatory disclosures, institutions are expected to publish meaningful information and key metrics on climate-related and environmental risks that they deem to be material.

Expectation 13 states that institutions are expected to disclose meaningful information on climate-related and environmental risks that they deem to be material. As there is no common threshold for materiality, it is important that institutions conduct an assessment tailored to their business model and risk profile over short and longer time horizons. Any conclusions on the materiality of information should be based on concrete quantitative and qualitative thresholds.

As part of the supervisory assessment that formed the basis of the ECB's recent report on the state of climate and environmental risk management in the banking

¹⁰ See footnote 6.

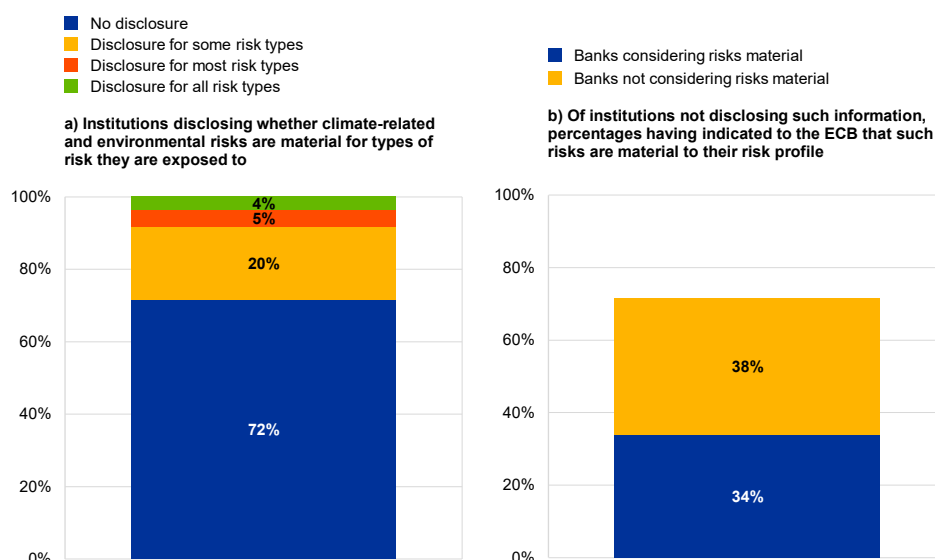
sector,¹¹ the ECB asked institutions about the materiality of climate-related and environmental risks for their risk profile. This information was assessed in conjunction with the information on materiality that banks had published as part of their disclosures.

Roughly three-quarters of the institutions do not disclose whether climate-related and environmental risks have a material impact on their risk profile (Chart 2, panel a). This shows that these institutions are either unaware of the potential impact of the risks on their balance sheets or are aware of the impact but do not transparently disclose it. The latter is the case for almost half of these institutions, which do not yet transparently disclose information on the materiality of climate-related and environmental risks, but previously indicated to the ECB that such risks would have a material impact for them in the short and/or longer term (Chart 2, panel b).

A quarter of the institutions do disclose the materiality of climate-related and environmental risks for at least some risk types, such as credit, market or operational risk (Chart 2, left panel). In most cases, however, the disclosures are at a high level and do not show the full breadth of the underlying analysis.

Institutions are more transparent about their views on how climate change and environmental degradation may affect the external environment, and tend to acknowledge the significance of these risks for the economy and society at large.

Chart 2
Transparency on the materiality of climate-related and environmental risks



Source: ECB.
Note: Panel b) is based on institutions' views on materiality expressed in the context of the 2021 ECB supervisory assessment.

¹¹ See footnote 6

4.1.3 Substantiation of disclosures

Expectation 13.3

When institutions disclose figures, metrics and targets as material, they are expected to disclose or reference the methodologies, definitions and criteria associated with them.

Expectation 13.3 of the ECB's Guide on climate-related and environmental risks says that, when institutions disclose figures, metrics and targets as material, they are expected to disclose or reference the methodologies, definitions and criteria associated with them. Substantiating disclosed figures, metrics and targets in terms of the underlying methodologies, definitions and criteria helps to give market participants a full picture of the institution's risk profile. This, in turn, can limit reputational and liability risks. Moreover, it allows for better comparison of disclosures across the board.

This type of substantiation is particularly relevant when institutions commit to contributing to climate-related and environmental goals, such as when they commit to aligning their exposures with the objectives of the Paris Agreement. Given the growing importance of such commitments, it can be expected that users of institutions' disclosures will increasingly seek information on the methodologies, definitions and criteria relating to these commitments, as well as on the corresponding metrics and targets.

The ECB observed that only about one in five institutions discloses the methodologies, definitions and criteria for all of the figures, metrics and targets reported as material. More than one-third of institutions do not disclose these aspects at all. The remainder (around 43%), disclose the methodologies, definitions and criteria for only some of the figures, metrics and targets reported as material.

As regards the substantiation of commitments to align exposures with the objectives of the Paris Agreement, among the institutions having made such commitments, less than half provide qualitative and quantitative information supporting them. Almost 30% of the institutions that have given such commitments do not provide any information supporting them, while about a quarter provide only qualitative information. This means that the majority of institutions disclosing these types of commitment do not comprehensively substantiate them in their disclosures, which potentially exposes them to reputational and liability risks. (see also Box 5).

Good practice

One institution aims to manage its portfolio to achieve net zero emissions by 2050 or sooner as part of its climate strategy, which it made publicly available. It discloses a number of (interim) targets and related metrics, as well as the progress made against them. For each of these targets and metrics, the institution discloses the sectors covered, the underlying methodology and the scenarios used to draw up benchmarks. For the methodologies and scenarios disclosed, it reports on the options chosen (where methodologies foresee them), the data sources relied on and changes made with respect to the previous disclosure. The institution also provides an explanation of its alignment indicators (aligned, mostly aligned or not aligned).

Box 2

Verification and audit of climate-related and environmental disclosures

Pursuant to Article 431(3) of the CRR, the management body or senior management of the institutions must “put in place and maintain internal processes, systems and controls to verify that the institutions’ disclosures are appropriate and in compliance with the [disclosure] requirements laid down in” the CRR. Article 431(3) of the CRR further requires Pillar 3 disclosures to “be subject to the same level of internal verification as that applicable to the management report included in the institution’s financial report” and institutions to “have policies in place to verify that their disclosures convey their risk profile comprehensively to market participants”. Institutions’ disclosures on climate-related and environmental information may also be subject to external audit or assurance.

The debate on the need for the external audit or assurance of disclosures of climate-related and environmental information is gaining traction. At the European level, as mentioned earlier, the European Commission’s proposal for a Corporate Sustainability Reporting Directive introduces, for the first time, a requirement for reported sustainability information to be subject to external assurance. In the same vein, the Network for Greening the Financial System calls for external assurance of climate-related financial disclosures, pointing out that verification and audit mechanisms for these disclosures are essential for data reliability and comparability.¹² Moreover, the debate has been spurred on by recent findings highlighting concerns about the extent to which company’ auditors consider climate-related matters in financial statements. For instance, a report by the Carbon Tracker Initiative found that most of the auditors of a series of financial statements of publicly listed carbon-intensive companies did not specify whether and how climate-related matters were taken into account.¹³

The ECB observed that around six in ten of the institutions analysed disclosed that climate-related and/or environmental information reported in their disclosures had been reviewed or audited by a third party. However, the following should be noted.

First, institutions’ disclosures vary significantly as regards the ease with which users can see whether or to what extent climate-related and environmental information has been subject to external assurance. For instance, such information is often disclosed as part of an overarching report that has been externally audited without specifying whether the audit covers the climate-related and environmental information reported.

On the upside, some disclosures explicitly mention which climate-related and environmental information formed part of the external assurance process. Other disclosures explicitly exclude specific types of information or expressly limit the extent of the assurance provided for specific elements of information. This helps users of disclosures understand whether the climate-related and environmental information they may need has been audited and how this was done.

Second, the type of climate-related and environmental information that is subject to external assurance is at times limited. For instance, in some cases it appears to be restricted to information on the energy efficiency of infrastructure and buildings.

¹² “Progress report on bridging data gaps”, NGFS, May 2021.

¹³ “Flying blind: The glaring absence of climate risks in financial reporting”, Carbon Tracker Initiative, 16 September 2021.

In particular, the ECB observed that Scope 3 financed emissions are seldom externally audited. Of the few institutions that disclose Scope 3 financed emissions, about half do not provide information as to whether the disclosed figures have been externally audited. This is because either they do not disclose whether the underlying disclosure document was externally audited, or they do not make it clear whether the external assurance covers the reported Scope 3 financed emissions. In addition, almost a fifth of institutions that disclose Scope 3 financed emissions explicitly exclude them from the scope of external assurance.

4.2 Content of disclosures

4.2.1 Business model and strategy

Expectation 13.4

Institutions are expected to disclose climate-related risks that are material with due regard to the European Commission's Guidelines on non-financial reporting: Supplement on reporting climate-related information.

Expectation 13.4 of the ECB's Guide on climate-related and environmental risks sets out expectations as regards the nature of information to be disclosed and makes reference to the European Commission's Supplement on reporting climate-related information. The Supplement points out that it is important "for stakeholders to understand the company's view of how climate change impacts its business model and strategy, and how its activities can affect the climate, over the short, medium and long term". This entails not only the description of climate-related risks to the company's business model, strategy and financial planning, but also the description of the ways in which the company's business model can affect the climate.

57% of the institutions in the sample still do not describe the potential strategic impact of either transition or physical risk. Instead, many give a general description of climate change or climate-related risks affecting either the economy or the financial sector, without a clear link to the bank's business model. 31% of the banks disclose a strategic impact of both physical and transition risk, 10% of transition risk only and 2% of physical risk only. For transition risk, 31% of the banks disclose an impact in both the short and long term, 7% only in the short term and 3% only in the long term. For physical risk, 23% of the banks disclose an impact in both the short and long term, 7% only in the short term and 3% only in the long term.

It could also be observed that for the banks disclosing a strategic impact, the split between the short term and long term is not easily recognisable, with banks tending to refer to the risk for the business model in general terms. Furthermore, descriptions remain very generic, high-level and not always tailored to the profile of the institution and its exposures to certain sectors or collateral.

Expectation 13.6

Institutions are expected to disclose the KPIs and KRIs used for the purposes of their strategy-setting and risk management, as well as their current performance against these metrics.

Under Expectation 13.6, institutions are expected to disclose the KPIs and KRIs used for strategy-setting and risk management, as well as their current performance against these metrics.

In its report on the state of climate-related and environmental risk management in the banking sector, the ECB assessed that 25% of the banks were using KPIs for their strategy-setting. However, only 6% disclose those KPIs used for strategy-

setting, and 16% some of them. 87% of the banks do not disclose any KRI used for strategy-setting, even though some had integrated KRIs in their own risk reports, for instance in the context of the risk appetite framework. Only 3% of the banks disclose all KRIs used for strategy-setting.

4.2.2 Governance

The European Commission's Supplement on reporting climate-related information referred to in the ECB Guide expectation 13.4 provides guidance on how to incorporate governance-related information into disclosures. In particular, it sets guidelines for describing the board's oversight of climate-related risks and management's role in assessing and managing climate-related risks, and for explaining the rationale for the approach taken.

71% of the institutions in the sample describes board oversight of climate-related and environmental risks. This is a noticeable improvement from the 2020 disclosure assessment, when only just over half (53%) of the institutions provided disclosures on the board's oversight of climate-related risks or opportunities.

The institutions assessed have progressed towards adopting a more fully-fledged methodology of reporting, monitoring and managing the evolution of and exposures to the risks. For instance, institutions reported making effective use of climate risk dashboards as a steering tool for overseeing the financial, operational and legal dimensions of climate risk.

For institutions that provide disclosures on board oversight, the disclosures describe the structures in place for providing risk information to the board. However, the level of detail provided is still broad and does not give stakeholders full transparency on the board's capacity to oversee climate and/or environmental-related risks at a granular level. About 30% of the entities either do not disclose or provide limited qualitative information, mostly related to establishing initiatives, task forces and committees that plan to address those risks.

4.2.3 Risk management

The European Commission's Supplement on reporting climate-related information points out that it is important "for investors and other interested stakeholders to know how the company identifies climate-related risks, the principal risks it has identified, and how it manages those risks". This entails the description of not only the processes for identifying, assessing and managing climate-related risks (including how decisions are taken on mitigating, transferring, accepting, or controlling those risks) but also how these processes are integrated into the company's overall risk management.

The ECB's disclosures assessment showed that 71% of the institutions describe their processes for identifying, assessing and managing climate-related and/or environmental risks, although only 17% have done this comprehensively in a way

that allows stakeholders to understand how the elements of climate-related and environmental risks have been integrated into the risk management processes in terms of interconnections, temporal horizon, proportionality and consistency. This continues the rising trend identified in the assessments conducted: for 2020 only 57% had described these processes, of which 18% comprehensively.

Expectation 11

Institutions with material climate-related and environmental risks are expected to evaluate the appropriateness of their stress testing, with a view to incorporating them into their baseline and adverse scenarios.

Scenario analysis and stress testing are useful tools for risk identification and assessment of climate-related risks, and institutions are therefore expected to integrate them into their risk management in accordance with Expectation 11 of the ECB's Guide on climate-related and environmental risks. 60% of the institutions still do not make any reference to the use of these tools, although 14% have reported plans to do so in the short term. However, significant advances have been identified in this area, with 29% of the institutions already referring to the use of stress testing in their risk management, 25% in conjunction with the use of climate-related scenario analysis. It should be noted that neither the quality nor the usefulness of any scenario analysis or stress testing was assessed, but simply whether reference was made to the use of these tools. At the same time, the ECB expects that the climate risk stress test to be performed in the coming months will promote the integration of these tools in banks risk management.

Expectation 8

In their credit risk management, institutions are expected to consider climate-related and environmental risks at all relevant stages of the credit-granting process and to monitor the risks in their portfolios.

Another important aspect of the risk management practices referred to in the ECB's Guide on climate-related and environmental risks is encapsulated in Expectation 8 on the consideration of climate-related and environmental risks at all relevant stages of the credit-granting process and the monitoring of the risks in banks portfolios. 64% of the institutions in the sample describe how climate-related and/or environmental risks feed into credit-granting policies and procedures, with the implementation of exclusion lists, and most of the institutions have disclosed sensitive climate risk investments (usually in conjunction with the ESG elements). In the 2020 assessment, only 54% of institutions had done so.

Good practice

One institution disclosed its procedure for the management and continuous monitoring of the environmental and social risks associated with the financing of corporate client activities and facilities. A loan application is approved from an ESG risk perspective when the risks are acceptable and/or the beneficiary agrees to the additional risk control measures and the implementation of mitigation measures. The monitoring of loans for ESG risks is part of the periodic loan review, and credit facilities can be terminated in cases where ESG risk conditions agreed as part of the additional risk control measures are not met.

4.2.4 Disclosures of other environmental risks

Expectation 13.7

Institutions are expected to evaluate any further environmental risk-related information needed to comprehensively convey their risk profile.

First indications¹⁴ show that other environmental risks are of a similar magnitude to climate-related risks. In a recent report,¹⁵ 50 of the world's leading biodiversity and climate experts argued that climate change and biodiversity loss cannot be managed in isolation. At the European level, the European Commission has set ambitious targets to reduce pollution and biodiversity loss.¹⁶

Against this background, Expectation 13.7 of the ECB's Guide on climate-related and environmental risks sets expectations as regards disclosures of other environmental risks. Banks' risk management and public disclosures are expected to take a holistic approach to identifying, monitoring and managing all material climate-related and wider environmental risk drivers.

As pointed out in the ECB's report on the state of climate-related and environmental risk management in the banking sector, most institutions still have a blind spot for other environmental risk drivers, such as biodiversity loss and pollution. This is also the case in this area. Only 25% of the banks in the sample make at least a broad reference to other environmental risks, such as pollution or water usage. Moreover, in most cases those disclosures relate not to the bank's portfolio, but mostly to its own operations or to side projects, for instance to protect biodiversity. For the banks disclosing more precise information, descriptions generally relate to the financing of special projects to reduce environmental impact, but do not give an overview of the risk for the bank's portfolio. In other cases, banks disclosed that other environmental risks were covered by climate related-risks, without providing further information.

Only 6% of the banks in the sample disclose minimal analyses of the environmental impact of their portfolios (e.g. of water or biodiversity footprint, of external costs, or an environmental impact report). Even in those cases, the impact is rarely quantified and is typically mixed with "positive" financing actions undertaken by the bank.

Approximately 80% of the participating institutions do not disclose information about their processes to identify and report on the adverse environmental impact of their lending activities. Such processes are either not disclosed or are still under development and not yet implemented by the entities.

Box 3

Further observations on disclosures of institutions with a parent group headquartered outside the countries participating in European banking supervision

The assessment covered disclosures by 12 institutions with a parent group headquartered outside the countries participating in European banking supervision. Since several of these banks are global systemically important banks (GSIBs), they provided extensive disclosures at group level

¹⁴ See van Toor, J., Plijic, D., Schellekens, G., van Oorschot, M. and Kok, M., "[Indebted to nature. Exploring biodiversity risks for the Dutch financial sector](#)", De Nederlandsche Bank and PBL Netherlands Environmental Assessment Agency, June 2020.

¹⁵ Pörtner, H.O. et al., "[IPBES-IPCC co-sponsored workshop report on biodiversity and climate change](#)", IPBES and IPCC, 2021.

¹⁶ See the European Commission's website for more information on the EU's [zero pollution action plan](#) and [biodiversity strategy for 2030](#).

(e.g. annual report, non-financial reports, Pillar 3 reports, TCFD reports and ESG reports), which considered where they were materially applicable to the group's EU subsidiary and relevant to their business model and geography. In general, progress differed between the parent group and the EU subsidiary, and risks were partially acknowledged primarily through consolidated publications.

The institutions disclose methodologies and definitions for at least some metrics. Half of the 12 banks do so for all metrics over the short and medium term for both physical and transition risks. Board oversight of climate-related and environmental risks is primarily described on the basis of group publications. Similar findings are applicable to the operations for managing climate-related and environmental risks with key components such as credit-granting processes, climate scenario analysis and stress tests. Active reporting targets are in place for most institutions but there are diverse practices in monitoring, with less than half of the institutions implementing KPIs or KRIs measured against targets. Although Scope 1,2 and 3 emissions are disclosed by all institutions, only two capture financed emissions within Scope 3, while the rest focus on own operations. All of these banks have stated a commitment to align with the Paris Agreement. This ambition is primarily articulated in a qualitative manner. Portfolio alignment metrics are disclosed only for a quarter of institutions and covering a limited number of carbon-intensive sectors (e.g. one or two sectors or more, and at best oil and gas, cement, iron, automotive and power generation).

Two-thirds of the banks disclose information on the potential impact of environmental risks on business model and risk profile. However, they provide limited information about processes for identifying and reporting on adverse environmental factors (e.g. water or biodiversity footprint) affecting lending activities. No information has been provided by these banks regarding either the future EU Taxonomy or energy performance certificates (EPCs) of real estate portfolios.

5 Further observations on metrics, targets and commitments

5.1 Selected metrics

Disclosure of Scope 3 financed emissions

Expectation 13.5

Institutions are expected to disclose the institution's financed Scope 3 GHG emissions for the whole group.

The ECB's Guide on climate-related and environmental risks sets out expectations as regards disclosure of Scope 3 financed emissions. Scopes 1, 2 and 3 are categories that can be used by organisations as a conceptual tool to formalise their GHG emission accounting while avoiding double counting. The Greenhouse Gas Protocol is a common reference in that regard. Scope 3 covers all indirect GHG emissions that occur in the value chain of the reporting company, including both upstream and downstream emissions. In the case of a credit institution, this includes the emissions of counterparties linked to lending portfolios, or in other terms "financed emissions", and which are expected to represent the large majority of emissions. Although the ECB does not prescribe the use of a specific measurement and/or attribution methodology, institutions are encouraged to adopt a granular approach to measuring carbon emissions, while remaining consistent with the GHG Protocol, as set out in the European Commission's Supplement on reporting climate-related information. This could, for instance, entail a project-by-project approach to measuring the carbon intensity of large corporate portfolios and the property-by-property measurement of actual energy consumption or classification of energy efficiency for real estate portfolios. Furthermore, the EBA ITS on Pillar 3 disclosures on ESG risks will also require large banks with traded securities to disclose Scope 3 financed emissions for selected portfolios.

While 74% of banks in the sample disclose Scope 1, 2 and 3 emissions, only 15% actually disclose Scope 3 financed emissions (or some of them), which is only a slight increase compared with the 2020 assessment (14%). In numerous cases banks do not say explicitly that their overall Scope 3 emissions do not incorporate those financed emissions, making it challenging to compare Scope 3 emissions across banks. When banks reported their Scope 3 financed emissions for at least one portfolio, those Scope 3 financed emissions represented 93% of their total Scope 1, 2 and 3 GHG emissions.

The following portfolios tend to be covered by financed emissions reporting: listed equity and corporate bonds (6% of all banks in the sample), business loans (4% of all banks in the sample), project finance (1% of all banks in the sample), commercial real estate (3% of all banks in the sample), mortgages (6% of all banks in the sample), and motor vehicle loans (2% of all banks in the sample). For the institutions disclosing Scope 3 financed emissions, the Partnership for Carbon Accounting Financials (PCAF) methodology was quoted by 8% of the banks, and United Nations Environment Finance Initiative (UNEP-FI) methodology was quoted in 4% of cases.

For all other Scope 1 and 2 emissions, there is no mention of methodology in 76% of cases.

Disclosure of information related to energy performance certificates

The EBA ITS templates cover information related to energy performance certificates (EPCs). For their real estate portfolios, institutions will be requested to disclose information on the energy efficiency of the underlying real estate collateral, including the distribution of collateral by EPC label and energy consumption. The ECB looked at whether institutions already disclose information about EPCs for their financed real estate portfolios, which may be an important indicator of exposure to transition risk. More than 80% of institutions do not do so. Some institutions (around 4%) disclose EPCs only for their residential real estate portfolios and others (around 3%) only for their commercial portfolios. Less than one in ten institutions disclose such information for both their residential and commercial real estate portfolios.

Information related to portfolio alignment

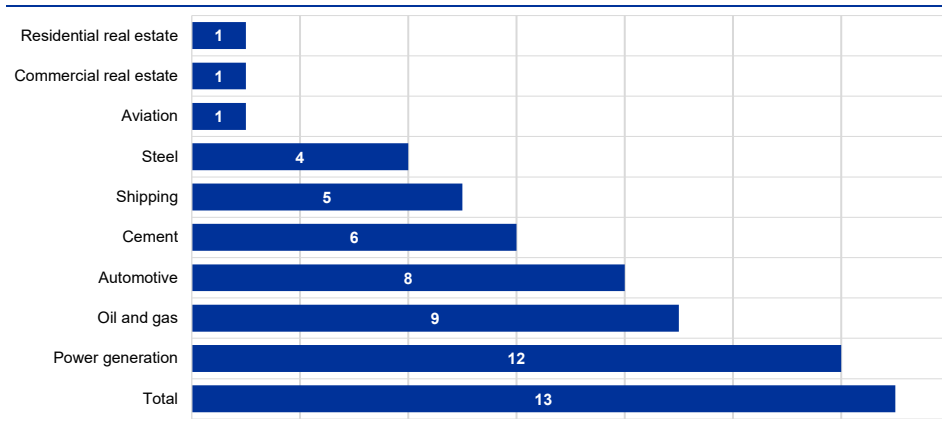
The transition to a low-carbon and more sustainable economy requires a structural transformation of economic activities, and in particular the production, transportation and consumption of energy. For climate change, specifically, this entails a change from high to low-carbon technologies for a variety of sectors, including the fossil fuel, energy production, automotive, steel and aviation sectors. Various agencies, including the International Energy Agency (IEA), have set out pathways for the transformation of these sectors to achieve a clean and resilient energy system.¹⁷ Financial institutions have endeavoured to assess and disclose the alignment of their financing activities in these key transition sectors against science-based pathways. As pointed out by the NGFS,¹⁸ such context-based metrics are critical to gaining a better understanding of how exposures will evolve over time and comparing these against trendlines.

¹⁷ “[Net Zero by 2050 – A Roadmap for the Global Energy Sector](#)”, International Energy Agency, revised version, October 2021.

¹⁸ “[Progress report on bridging data gaps](#)”, Network for Greening the Financial System, May 2021.

Chart 3

Number of banks that conducted an assessment of portfolio alignment (by sector)



Source: ECB.

The chart shows the number of banks that disclose information on the alignment of their own portfolios. At this stage, only 13 banks, or 12% of banks in the sample, disclose one or several alignment metrics. Banks that have reported that they are working on pilot testing or developing alignment approaches are not included in this overview. Moreover, banks may also disclose various additional metrics that are not necessarily assessed against a transition pathway. These are not included in this overview.

While the ECB encourages banks to disclose results from pilot exercises that have been conducted, it points out that institutions are required to comprehensively disclose their risk profile. Some banks have started to disclose results from pilot alignment assessments relating to individual sectors that may not provide a representative view of risks from potential misalignments (e.g. if a bank with a large power generation portfolio only discloses information on its comparatively small automotive portfolio). Similarly, some bank's disclosures focus only on those technologies for which they have set policies or targets (e.g. if a bank discloses its alignment in relation to coal power generation but not the production capacities for other high-carbon technologies related to the same exposures). Lastly, various banks have selected benchmarks (e.g. different geographical regions and/or scenarios) that may not be representative of their portfolio and provide no justification for their selection.

In future, the EBA ITS will require institutions to disclose relevant alignment metrics by sector and estimate the distance between their financing and the 2030 milestones defined by the IEA scenario.¹⁹ Moreover, institutions will be required to develop transition plans and manage and disclose risks relating to misalignment with the transition, and supervisors will be mandated to scrutinise these plans.

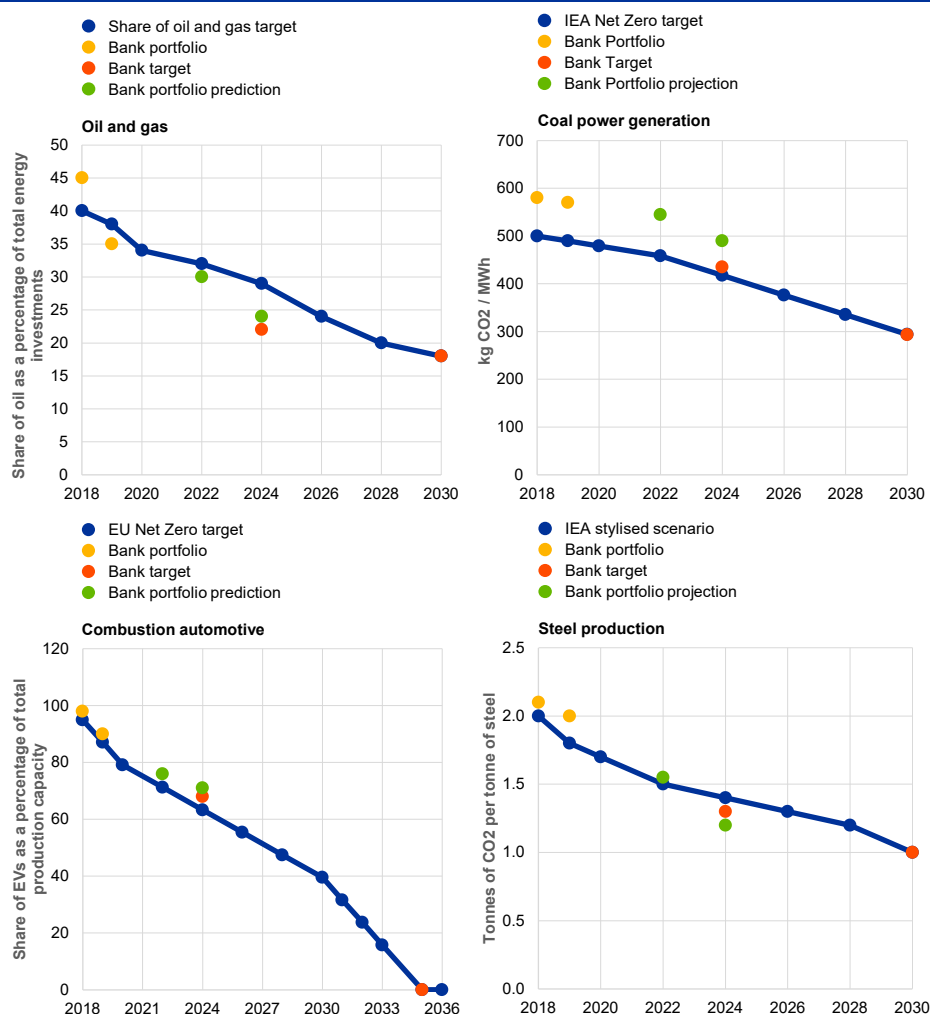
¹⁹ See footnote 5.

Good practice on the transparent disclosure of portfolio alignment methodologies, metrics and targets

The chart and table below show stylised examples from banks' disclosures of definition, assessment, monitoring and steering of alignment metrics for various portfolios. The banks in question set net zero targets by 2050 and endeavour to align their portfolios to science-based transition pathways, including technology pathways originating from the IEA Net Zero 2050 scenario. The banks disclosed dashboards that displayed the performance of the banks' loan books in various transition sectors, such as power generation, oil and gas, automotive, steel, cement and real estate, against a science-based transition pathway. The banks disclosed the precise indicators used, the underlying methodologies and reference scenarios per indicator. For each of the indicators, the bank disclosed its current and projected performance against the pathway and set associated targets.

Chart 4

Stylised dashboard of banks' alignment metrics and targets



Source: ECB.

Table 3

Stylised overview of the approach for measuring performance against targets

Indicator	Scenario	Baseline	Target for 2030	Realisation
Renewable energy investment as a percentage of total energy investment		2018	50%	Off track
Emission intensity of steel	IEA Net Zero Emission scenario	2018	1.1	Target met
Share of combustion engines in Automotive production	EU ban on fossil fuel cars by 2035	2018	36%	On track
Share of oil and gas in the portfolio energy mix	IEA Net Zero Emission scenario	2018	25%	Target met
Power generation emission intensity	IEA Net Zero Emission scenario	2018	293	On track

Information related to the disclosure of Taxonomy-aligned exposures

The Taxonomy Regulation is expected to have an impact on banks' disclosures in the future. The EBA has developed certain KPIs, including a green asset ratio (GAR), and integrated them into its final ITS on Pillar 3 disclosures on ESG risks (see Box 4).

Several banks have started to mention the Taxonomy in their disclosures. 26% of the banks in the sample made a qualitative reference to the Taxonomy, usually in the following contexts.

- Banks refer to the preparatory work for screening their portfolios to identify the assets in questions. They usually mention that the work will be gradual and sector by sector. Some banks list some of the challenges they encountered in their preliminary work (e.g. loans for which the purpose is not known).
- Some banks already disclose how they might or will use the taxonomy, for example to develop a strategic KPI in order to expand green exposures; for integration in sectoral credit-granting policies; or as the basis for a long-term objective for increasing the share of green assets in their portfolio.

7% of the banks in the sample provided some quantitative information relating to the Taxonomy. These were mostly the banks disclosing case studies showing the application of the Taxonomy to certain portfolios (e.g. retail mortgage loans or motor vehicle loans). Some disclosed that they have identified Taxonomy-aligned exposures for some of their asset management funds.

Box 4

Article 8 of the Taxonomy Regulation

The Taxonomy Regulation was published in the Official Journal of the European Union on 22 June 2020 and entered into force on 12 July 2020. It establishes a common classification system of environmentally sustainable economic activities at EU level. Article 8 of the Taxonomy Regulation requires any undertaking subject to the NFRD to disclose information on how and to what extent its

activities are associated with economic activities that qualify as environmentally sustainable under the Taxonomy Regulation.

Following a call for advice issued by the European Commission in September 2020, in March 2021 the European Banking Authority (EBA) proposed KPIs and a methodology for disclosures under Article 8 of the Taxonomy Regulation, including a green asset ratio. In line with this advice, the Commission published the Delegated Regulation of 6 July 2021 supplementing Regulation (EU) 2020/852. The Delegated Regulation defines the green asset ratio for banks' disclosures on the taxonomy-alignment of their exposures.

In its final draft ITS on Pillar 3 disclosures on ESG risks, the EBA adjusted its templates to reflect the Delegated Regulation and integrated the KPIs and other quantitative information on climate change mitigating measures, including the green asset ratio. The disclosure of information on this ratio will apply in 2024 for data as of end-2023, in line with the application date set in the Delegated Regulation.

5.2 Targets and commitments

Expectation 13.6

Institutions are expected to disclose the KPIs and KRIs used for the purposes of their strategy-setting and risk management, as well as their current performance against these metrics.

Expectation 13.6 of the ECB's Guide on climate-related and environmental risks states that institutions are expected to disclose the KPIs and KRIs used for the purposes of their strategy-setting and risk management, as well as their current performance against these metrics. They are also expected to disclose the metrics used in the context of strategy-setting and risk management, including targets and the current performance of the institution against those targets. Access to the targets used by an organisation allows investors and other stakeholders to better assess its general exposure to climate-related issues and progress on managing or adapting to those issues. It also provides a basis upon which investors and other stakeholders can compare organisations, for example as regards their level of ambition in tackling climate-related and environmental risks. This is also why, like other metrics, targets need to be well substantiated, and their definition and the criteria underlying their calculation well explained, in the spirit of Expectation 13.3 (see also Section 4.1.3).

Only half of the banks in the sample disclose KPIs or KRIs relating to climate-related and/or environmental risks. Within this group, many indicators disclosed relate to green financing rather than risks per se. Furthermore, only 32% disclose KPIs or KRIs and assess their own performance against them. For example, many banks intend to hold a certain amount of green bonds, but do not specify whether this indicator relates to the stock for the flow or where they stood in terms of financing at the time of the report.

50% of the banks disclose targets. Moreover, many of these targets relate to the non-financing activities of the bank: electricity consumption, business trips, etc. Several banks have targets in place covering Scope 1, 2 and 3 emissions, but they do not all clearly state when those emissions do not cover financed emissions. Some targets relate to green financing, but are not always set in context (e.g. as a proportion of the balance sheet, or as a proportion of new financing). Some targets

relate to the ending of certain financing activities; however, it is not always disclosed whether those exposures are material for the bank or how the bank will reduce its exposures.

It could be observed, however, that a growing number of banks disclose alignment metrics with clear targets in line with a net zero pathway (see also Section 5.1.1).

Box 5

Achieving net zero – commitments from banks

In the run-up to the COP26 summit held in Glasgow last year, the Glasgow Financial Alliance for Net Zero (GFANZ) was established by Mark Carney, the UN Special Envoy for Climate Action and Finance and Finance Adviser to the UK Prime Minister for COP26, and the COP26 Private Finance Hub in partnership with the UNFCCC Climate Action Champions, the UN's Race to Zero campaign and the COP26 Presidency. The initiative recognises that, in order to keep alive the goal of limiting global warming to 1.5 degrees Celsius, all companies, including banks, need to adapt their business models and develop and implement credible transition plans.²⁰ Towards the end of 2021 about 30% of the institutions whose disclosures are analysed in this report – which amounts to roughly 75% of total assets under ECB supervision – joined GFANZ, and membership is growing.

Institutions joining the GFANZ via its Net-Zero Banking Alliance (NZBA) initiative, commit to aligning their lending and investment portfolios with net zero emissions by 2050 and to setting intermediate targets for 2030 or sooner, as well as for every five years thereafter. Members of the NZBA, which is anchored in the UN's Race to Zero campaign also commit to developing and disclosing transition plans, being transparent about their progress against targets, and using offsets only under strict conditions.²¹

The stated focus of GFANZ is on near-term actions.²² This is not only important for meeting the objectives of the Paris Agreement,²³ but also has prudential relevance. It can help to manage the build-up of excessive prudential risks, particularly transition risks. The ECB's benchmarking shows that institutions have systematically failed to establish a clear link between their stated carbon emissions goals for 2050 and their concrete actions in the present and medium term.²⁴ Similarly, in this report, the ECB finds that most institutions stating commitments to align their exposures with the objectives of the Paris Agreement do not comprehensively substantiate these commitments in their disclosures (see Section 4.1.3 above).

The ECB observed that, at the current juncture, the same observation applies to the GFANZ members whose disclosures were analysed in this report. Almost all of them disclose a commitment to align their exposures with the objectives of the Paris Agreement (these GFANZ members make

²⁰ See [“The Glasgow Financial Alliance for Net Zero. Our progress and plan towards a net-zero global economy”](#), GFANZ, November 2021.

²¹ For more information see the [“Net-Zero Banking Alliance”](#), pages on the United Nations Environment Programme Finance Initiative (UNEP-FI) website.

²² See [“The Glasgow Financial Alliance for Net Zero. Our progress and plan towards a net-zero global economy”](#), GFANZ, November 2021.

²³ See [“Emissions Gap Report 2021: The Heat Is On – A World of Climate Promises Not Yet Delivered”](#), United Nations Environment Programme, Nairobi, 26 October 2021.

²⁴ See Elderson, F., [“Overcoming the tragedy of the horizon: requiring banks to translate 2050 targets into milestones”](#), keynote speech at the Financial Market Authority's Supervisory Conference, Vienna, 20 October 2021.

up around 40% of the institutions disclosing such commitments). However, less than half provide qualitative and quantitative information supporting their commitment. More than 20% do not provide any such information (here, GFANZ members fare slightly better than the overall sample of institutions disclosing such commitments, of which almost 30% do not provide any information supporting them). However, it should be noted that almost all GFANZ members within the scope of this report joined the initiative after the reference date for analysis of the disclosures.

GFANZ has developed a set of elements for institutions to consider when preparing their transition plans. These elements include the disclosure of Scope 3 financed emissions and of the policies, metrics and methodology used for institutions' net zero portfolio emissions targets. GFANZ also supports members in the rollout of portfolio alignment methodologies. The ECB notes that work in this area is gaining momentum. This is also exemplified by the inclusion of portfolio alignment metrics in the EBA ITS.

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