ECB report on institutions’ climate-related and environmental risk disclosures
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Executive summary

With this report, the European Central Bank (ECB) has endeavoured to provide a snapshot of the level of disclosure of climate-related and environmental risks in the SSM countries. The assessment was performed in view of the supervisory expectations set out in the “ECB Guide on climate-related and environmental risks”. To that end, the comprehensiveness of climate-related and environmental risk disclosures of 107 significant institutions (SIs) and 18 less significant institutions (LSIs) in the reference year 2019 were assessed.

While the assessment did not cover exhaustively all the elements needed to comprehensively disclose institutions’ risk profiles, and although only the existence of disclosures was assessed, this report provides an overview of the state of climate-related and environmental risk disclosures in the SSM area in 2020, also with respect to the related supervisory expectation. It also provides an overview of observed practices and areas for improvement. It is the second assessment of this type to be performed by the ECB, with the first one focusing on disclosures in the reference year 2018. It provides a baseline against which progress towards alignment with supervisory expectations can be measured going forward.

Table 1
Overview of institutions disclosing basic climate-related information

<table>
<thead>
<tr>
<th>Category</th>
<th>Metric</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disclosure policies and procedures</td>
<td>1. Percentages of institutions that substantiate consideration of climate-related risks as immaterial in their disclosures (where the institution reports it deems the risks to be immaterial)</td>
<td>8%</td>
</tr>
<tr>
<td></td>
<td>2. Percentage of institutions disclosing methodologies, definitions and criteria associated with any figure, metric or target reported</td>
<td>45%</td>
</tr>
<tr>
<td>Business strategy</td>
<td>3. Percentage of institutions describing the potential strategic impact of transition risks in the short and long term</td>
<td>30%</td>
</tr>
<tr>
<td></td>
<td>4. Percentage of institutions describing the potential strategic impact of physical risks in the short and long term</td>
<td>24%</td>
</tr>
<tr>
<td>Governance</td>
<td>5. Percentage of institutions describing the board’s oversight of climate-related risks</td>
<td>55%</td>
</tr>
<tr>
<td></td>
<td>6. Percentage of institutions describing the organisation’s processes for identifying, assessing and managing climate-related risks</td>
<td>57%</td>
</tr>
<tr>
<td>Risk management</td>
<td>7. Percentage of institutions describing how climate-related risks feed into credit-granting policies</td>
<td>54%</td>
</tr>
<tr>
<td></td>
<td>8. Percentage of institutions making any reference to the use of scenario-analysis or stress testing</td>
<td>29%</td>
</tr>
<tr>
<td>Metrics and targets</td>
<td>9. Percentage of institutions disclosing at least one metric and one target</td>
<td>37%</td>
</tr>
<tr>
<td></td>
<td>10. Percentage of institutions disclosing a key performance indicator or key risk indicator</td>
<td>26%</td>
</tr>
<tr>
<td>Percentage of institutions that disclose all of the above information</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td>Percentage of institutions that disclose less than half of the above information</td>
<td>58%</td>
<td></td>
</tr>
<tr>
<td>Percentage of institutions that disclose none of the above information</td>
<td>16%</td>
<td></td>
</tr>
</tbody>
</table>
The ECB concludes that, in general, institutions do not yet comprehensively disclose their risk profile and that significant efforts are needed to promote transparency in the financial markets on the climate-related and environmental risks institutions are exposed to. As of yet, virtually none of the institutions in the scope of the assessment would meet a minimum level of disclosures set out in the “ECB Guide on climate-related and environmental risks”, 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). The level of progress varies considerably across institutions, depending on their size and the topic in question. There is a general lack of articulation among climate-related topics and statements are too rarely supported by quantitative information. Nonetheless, the ECB has observed a clear positive trend in the level of climate-related disclosures over the past two years. Some progress can already be seen in some individual institutions, and good practices are spreading rapidly.

**Disclosure policies and procedures:** Most of the assessed institutions refer to climate-related risks in their public disclosures in some form, predominantly in their annual report. A limited number of institutions disclose information on the outcome of their materiality assessment. Those that qualify the risk as immaterial typically provide no substantiation. A minority of institutions disclosing metrics and targets appropriately references methodologies, definitions and criteria.

**Business strategy:** Less than one third of the institutions assessed disclose the potential impact of transition risk on their business model in the short and long term. This proportion is even smaller for physical risk. In both cases, they make no clear distinction available between short-term and longer-term assessments. Only a limited number of institutions disclose clear mapping of climate-related risks on existing categories of risks, impacts on the strategy and mitigating actions to be implemented.

**Governance:** Only half of the institutions provide disclosures on the board’s oversight of either climate-related risks or climate-related opportunities. While some institutions refer to the board’s involvement in climate-related topics, the form this involvement takes is not always described.

**Risk management:** One in two institutions have publicly described their processes for identifying, assessing and managing climate-related risks, of which only a minority have done so comprehensively. Less than one quarter of institutions refer to the use of climate-related scenario analysis in their disclosures and even fewer refer to stress testing, although many institutions disclose that work in these areas is under way. Institutions that have integrated climate-related risks in their credit risk management policies typically refer to the use of a combination of sectoral approaches, ranging from the exclusion of certain sectors to heightened engagement with clients in identified sectors.

**Metrics and targets:** Just over one third of the institutions assessed disclose both targets and metrics, and only a minority discloses quantitative information about the carbon intensity of their portfolios. Reporting of greenhouse gases (GHG) emissions typically incorporates Scope 1 and 2 emissions, and more rarely downstream
emissions (Scope 3) from portfolios. Targets are not always supported by the relevant metrics, making it difficult to assess the performance of the institution against them.
Introduction

In December 2015, the Paris Agreement broke new ground in international climate policy, allowing countries to set their own level of ambition for climate change mitigation. It created a framework for making voluntary pledges that can be compared and reviewed internationally, putting transparency, comparability and peer pressure at the heart of the new system. Disclosures, particularly in the private sector, became all the more important within this framework. Better disclosure of the financial impacts of climate-related and environmental risks and opportunities is key for attaining the transparency required to maintain market discipline. Promoting peer pressure pushes companies to manage and reduce their individual risk. In 2015, the Financial Stability Board established the Task Force on Climate-related Financial Disclosures (TCFD) to provide corporations with recommendations for assessing and reporting on their climate-related risk management strategy. The European Commission’s “Guidelines on non-financial reporting: Supplement on reporting climate-related information”¹ (hereinafter the “Supplement”) issued in June 2019 integrate these recommendations and constitute a starting point for some climate-related indicators.

In the banking industry, disclosures also provide transparency to market participants on institutions’ exposures to physical and transition risk. Such disclosures contribute to the orderly functioning of financial markets. To that effect, building on the abovementioned developments, in 2020 ECB Banking Supervision published its “Guide on climate-related and environmental risks”² (hereinafter “the ECB Guide”) including a set of expectations on climate-related and environmental risk disclosures. These expectations correspond with the aforementioned recommendations of the TCFD and the Supplement.

This report should be read in conjunction with the prudential requirements set out in the regulatory framework and more particularly in the Capital Requirement Regulation (CRR) as further specified by European Banking Authority (EBA) Guidelines. The ECB Guide includes relevant supervisory expectations in its Part 7, Expectations 13.1 to 13.7. This report should be understood as an exercise to identify the existence of disclosures by SSM Significant Institutions (hereinafter “SIs”) and a number of Less Significant Institutions (hereinafter “LSIs”), without systematically assessing the quality or their substantiation. This means that disclosure of basic information on governance, strategy, risk management, and some metrics and targets were examined. The report points out the practices identified in the disclosures that take place, as well as apparent shortcomings. It provides a picture of the state of climate-related disclosures at the end of 2019, in light of the ECB expectations.

1 Disclosure frameworks

1.1 Regulatory requirements

European Union (EU) law requires large companies to disclose certain information on the way they operate and how they manage social and environmental challenges. Directive 2014/95/EU – also known as the Non-Financial Reporting Directive\(^3\) (NFRD) – lays down the rules on disclosure of non-financial and diversity information by large companies. Under this Directive, large companies, including financial institutions, have to publish reports on the policies they implement in relation to environmental protection, among other things.

Under the current prudential framework, institutions are required to comprehensively disclose their risk profile. To the extent that climate-related and environmental risks is considered information fulfilling the technical criteria specified in Part Eight of the CRR, institutions are required to disclose such information.

Furthermore, the European Banking Authority (EBA) has issued Guidelines\(^4\) mentioned in Article 432 of the Capital Requirements Regulation\(^5\) (CRR) that further clarify that the assessment of materiality of information is a user-centric concept, whereby information shall be regarded as material if its omission or mis-statement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. The EBA Guidelines also advise that, when an institution decides not to disclose information or a set of requirements due to non-materiality, it should clearly state this fact.

1.2 International best practices

In the wake of the Paris Agreement in 2015, several international initiatives were launched aimed at improving and harmonising practices for corporate disclosures on climate-related and environmental risks. One of these was the TCFD, which was established in December 2015. The TCFD provides corporations with a framework for assessing and reporting on their climate-related risk management strategy. It developed recommendations on climate-related financial disclosures applicable to organisations across sectors and jurisdictions for the benefit of investors, lenders, and insurance underwriters. The Task Force structured its recommendations around four thematic areas, namely governance, strategy, risk management, and metrics and

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\(^3\) 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

\(^4\) EBA Guidelines EBA/GL/2014/14 on materiality, proprietary and confidentiality and on disclosure frequency under articles 432(1), 432(2) and 433 of Regulation (EU) No. 575/2013.

targets. It also recommended disclosures that build on the framework in providing information to investors that helps them assessing risks and opportunities.

The ECB “Guide” and the Commission’s Supplement integrate the recommendations of the TCFD and provide a starting point for developing climate-related indicators. They propose climate-related disclosures for each of the five reporting areas listed in the NFRD: (a) business model; (b) policies and due diligence; (c) outcome of policies; (d) principal risks and risk management; and (e) key performance indicators. For each reporting area, the guidelines identify a limited number of recommended disclosures. A company can consider using the recommended disclosures to the extent these are necessary to give an understanding of its development, performance and position, as well as the impact of its activities.

Box 1
Examples of international initiatives to improve disclosures

In recent years, several private and non-governmental initiatives have been launched to improve public and private climate-related disclosures. For example, the CDP (formerly the Carbon Disclosure Project) is an organisation that provides support to companies in disclosing their environmental impact and climate-related disclosures covering governance, business strategy, risk management and metrics and targets. In addition, other initiatives such as the Partnership for Carbon Accounting Financials (PCAF) provide frameworks for developing the carbon accounting methodologies necessary to calculate and disclose carbon-related metrics tailored to financial institutions.

1.3 Supervisory expectations

The Network for Greening the Financial System (NGFS), in its “Guide for Supervisors, Integrating climate-related and environmental risks into prudential supervision”\(^6\), recommends supervisors to “set supervisory expectations to create transparency for financial institutions regarding the supervisors’ understanding of a prudent approach to climate-related and environmental risks.” More particularly, it recommends supervisors to clarify to financial institutions what is expected from them, and notably in terms of disclosures.\(^7\)

In its “Guide on climate-related and environmental risks”, ECB Banking Supervision published a set of expectations related to disclosures. The expectations cover not only the content of the disclosures, but also the policies, processes, methodologies, definitions and criteria associated with them. In terms of content, institutions are expected to disclose climate-related risks that are material, with due regard to the

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\(^7\) The NGFS Guide for Supervisors states that Supervisors expect financial institutions to disclose information and metrics on the climate-related and environmental risks they are exposed to, their potential impact on the safety and soundness of the institution and how they manage those risks. The NGFS encourages supervisory expectations concerning disclosures to be in line with the TCFD recommendations.
Commission’s Supplement. They are expected to disclose their GHG emissions for the whole group, including downstream emissions, as well as key performance indicators (KPIs) and key risk indicators (KRIs) they use for the purpose of strategy-setting and risk management. An overview of these expectations can be found in Figure 1.

**Figure 1**
Overview of supervisory expectations on disclosures

<table>
<thead>
<tr>
<th>Policies and procedures</th>
<th>Content of disclosures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Expectation 13.1</strong></td>
<td>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.</td>
</tr>
<tr>
<td><strong>Expectation 13.2</strong></td>
<td>In case an institution deems climate-related risks to be immaterial, the institution is expected to document this judgement with the available qualitative and quantitative information underpinning its assessment.</td>
</tr>
<tr>
<td><strong>Expectation 13.3</strong></td>
<td>When institutions disclose figures, metrics and targets as material, they are expected to disclose or reference the methodologies, definitions and criteria associated with them.</td>
</tr>
<tr>
<td><strong>Expectation 13.4</strong></td>
<td>Institutions are expected to disclose climate-related risks that are material with regard to the European Commission’s Guidelines on non-financial reporting: Supplement on reporting climate-related information.</td>
</tr>
<tr>
<td><strong>Expectation 13.5</strong></td>
<td>In particular, institutions are expected to disclose the institution’s financed Scope 3 GHG emissions for the whole group.</td>
</tr>
<tr>
<td><strong>Expectation 13.6</strong></td>
<td>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.</td>
</tr>
<tr>
<td><strong>Expectation 13.7</strong></td>
<td>Institutions are expected to evaluate any further environmental risk-related information needed to comprehensively convey their risk profile.</td>
</tr>
</tbody>
</table>

1.4 Ongoing developments

As stated in the Eurosystem reply to the European Commission’s public consultations on the Renewed Sustainable Finance Strategy and the revision of the NFRD, “currently the sustainable finance market suffers from numerous informational market failures: information on the sustainability of financial products – when available – is inconsistent, largely incomparable and at times unreliable.” In this context, disclosure frameworks are evolving rapidly from being a mostly voluntary exercise to having to comply with specific requirements. In this section we briefly review relevant developments in the EU.

The EU institutions have reached a political agreement to develop an EU-wide classification system, or Taxonomy, for sustainable investments. The EU Taxonomy

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Regulation\(^9\) (hereinafter the “Taxonomy”) classifies environmentally sustainable economic activities based on uniform criteria. The Taxonomy was published on 22 June 2020 and entered into force on 12 July 2020. The Taxonomy includes a set of granular criteria for economic activities to be considered sustainable\(^10\). The Taxonomy Regulation tasks the Commission with establishing the actual list of environmentally sustainable activities by defining technical screening criteria for each environmental objective. These criteria will be established through delegated acts in the course of 2021 and 2022.

Furthermore, going forward, credit institutions subject to the NFRD, which came into effect in all EU Member States in 2018 and has been transposed into national law, are required to provide further transparency on the extent to which their activities can be regarded as environmentally sustainable.

From a prudential perspective, Article 434a of the CRR 2\(^\text{11}\) now includes a mandate according to which the EBA shall develop a technical standard implementing the disclosure requirements, including environmental, social and corporate governance (ESG) risks. In line with this mandate, the EBA will specify the disclosures of ESG risks as part of the comprehensive technical standard on Pillar 3, given that from mid-2022 on, under Article 449a of the CRR 2, large institutions with publicly listed issuances are required to disclose information on ESG risks, physical risks and transition risks. In its Communication on the European Green Deal\(^\text{12}\), the European Commission committed to review the NFRD in 2020. A public consultation on the review of the NFRD was concluded in May 2020.

These efforts will enhance the amount and quality of climate-related and environmental disclosures available. The Eurosystem reply to the public consultation on the revision of the NFRD stated “Only if investors have clear and reliable information regarding the impact of their investments can they take financial decisions consistent with their own preferences for sustainability and confidently rebalance their portfolios towards sustainable assets. […] the Eurosystem considers the review of the NFRD to be a necessary building block to address the data gap that currently hinders the development of appropriate risk assessment and risk monitoring frameworks for the financial sector.”\(^\text{13}\).

The recently established Task Force on Nature-related Financial Disclosures (TNFD) convenes NGOs, governments and private financial institutions and is expected to

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\(^10\) An economic activity shall qualify as environmentally sustainable where that economic activity contributes substantially to one or more of the environmental objectives (climate change mitigation; climate change adaptation; the sustainable use and protection of water and marine resources; the transition to a circular economy; pollution prevention and control; the protection and restoration of biodiversity and ecosystems...) and does not significantly harm any of these environmental objectives.


\(^12\) Communication from the European Commission on the European Green Deal.

deliver a framework for nature-related financial disclosures by the end of 2022. With the TCFD specifically targeting climate-related disclosures, the need arose to set up a similar initiative to encapsulate risks and opportunities arising from environmental degradation and biodiversity loss beyond climate. The goal of the Task Force is to "create resilience in the global economy by redirecting flows of finance to allow nature and people to flourish." The TNFD envisions a prominent role for the financial sector.
2 Set-up of the assessment

2.1 Organisation of the assessment

The assessment took the form of desk research based on a questionnaire comparing the disclosure practices of SIs and selected LSIs to international best practices and, also, to the four thematic areas referred to in the supervisory expectations included in the ECB Guide, namely governance, strategy, risk management and metrics and disclosures. In addition, it touched upon disclosure policies and procedures.

The following public sources with a 2019 reference date were used in the assessment: annual reports, non-financial reports, sustainability reports, Pillar 3 reports, CDP reports and information available on institutions’ websites.

2.2 Characteristics of the sample

The assessment covered SSM SIs at 1 August 2020. In addition, the sample was complemented by 18 LSIs located in Belgium, Germany, Italy and the Netherlands.

The assessment focused mainly on disclosures at the highest level of consolidation in the SSM. However, the disclosures of large host banks were considered at international consolidation level, which were therefore outside the SSM scope. Disclosures by institutions with several subsidiaries in different SSM countries were only counted once.

Table 2
Overview of the institutions in the sample according to the asset size and country

<table>
<thead>
<tr>
<th>Country</th>
<th>AT</th>
<th>BE</th>
<th>CY</th>
<th>DE</th>
<th>EE</th>
<th>ES</th>
<th>FI</th>
<th>FR</th>
<th>GR</th>
<th>IT</th>
<th>LT</th>
<th>LU</th>
<th>MT</th>
<th>NL</th>
<th>PT</th>
<th>SI</th>
<th>SK</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant Institutions</td>
<td>6</td>
<td>6</td>
<td>3</td>
<td>20</td>
<td>2</td>
<td>12</td>
<td>3</td>
<td>11</td>
<td>4</td>
<td>6</td>
<td>12</td>
<td>1</td>
<td>5</td>
<td>2</td>
<td>6</td>
<td>3</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>&gt; €500bn assets</td>
<td>1</td>
<td>5</td>
<td>2</td>
<td>1</td>
<td>6</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>24</td>
<td></td>
<td></td>
</tr>
<tr>
<td>€100 billion - €500 billion assets</td>
<td>2</td>
<td>2</td>
<td>6</td>
<td>1</td>
<td>3</td>
<td>1</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>24</td>
<td></td>
</tr>
<tr>
<td>€30 billion - €100 billion assets</td>
<td>2</td>
<td>1</td>
<td>9</td>
<td>7</td>
<td>1</td>
<td>3</td>
<td>4</td>
<td>2</td>
<td>5</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>40</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt; €30 billion assets</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>19</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less Significant Institutions</td>
<td>3</td>
<td>5</td>
<td>4</td>
<td>6</td>
<td>18</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>6</td>
<td>9</td>
<td>3</td>
<td>25</td>
<td>2</td>
<td>12</td>
<td>3</td>
<td>11</td>
<td>4</td>
<td>6</td>
<td>16</td>
<td>1</td>
<td>5</td>
<td>2</td>
<td>12</td>
<td>3</td>
<td>2</td>
<td>3</td>
</tr>
</tbody>
</table>

2.3 Assessment objectives

The assessment examined the existence of disclosures only and not their substantiation. This means, for example, that a short, general reference to the
governance pertaining to climate risk management in an institution was counted as a disclosure on governance. However, some relevant practices were also identified for inclusion in the report. These are highlighted in each of the following sections. Some qualitative statements resulting from negative observations are also included in this report.

The objective of the assessment was to take stock of the existence of climate-related and environmental disclosures among SIs and in a sample of LSIs.

The assessment focused on climate-related risks, but also considered environmental disclosures, where these were relevant and sufficiently credible.

### 2.4 Prior assessment of 2018 disclosures

The reference period for the disclosures assessed was 2019, i.e. disclosures reporting on the year 2019 that were published in the course of 2020 and thus prior to publication of the ECB Guide. Therefore, they provide a baseline measurement of the state of climate-related and environmental disclosures against which improvements can be assessed going forward.

The report refers to the ECB’s assessment of 2018 disclosures, which is used among other things as a point of comparison. In the third quarter of 2019, the ECB’s Joint Supervisory Teams collected information on their SIs to assess for the first time the existence of climate-related disclosures. The methodology applied was similar to the one used in this report, and the questions focused on governance, strategy, risk management, and metrics and targets. The scope of the assessment differed slightly (different SI landscape and six Dutch LSIs). Subsequently, the host entity disclosures were considered at the highest level of consolidation of the SSM only.

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14 It should therefore be noted that any comparisons made in this report between the current exercise and the 2018 exercise should be understood as describing broad trends rather than representing precise percentage increases.
3 Outcome of the climate-related and environmental disclosures assessment

3.1 Disclosure policies and procedures

Most of the assessed institutions refer to climate-related risks in their public disclosures in some form, predominantly in their annual report. A limited number of institutions disclose information on the outcome of their materiality assessment. Those that qualify the risk as immaterial typically provide no substantiation. A minority of institutions disclosing metrics and targets appropriately references methodologies, definitions and criteria.

3.1.1 Introduction

A key requirement set out in the framework for regulatory disclosures is that institutions shall regard information as material, where its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. Institutions should have disclosure policies and procedures to specify the way in which materiality is assessed and how the appropriateness of their disclosures evaluated. It is worth noting that the TCFD, although not legally binding, deems it appropriate for institutions to disclose information on their governance and risk management of climate-related and environmental risks regardless of the materiality. Conversely, disclosures related to strategy and metrics and targets are subject to the outcome of the assessment of materiality. Moreover, both the TCFD and the EU Supplement caution against prematurely concluding that climate-related risks are immaterial owing to their perceived longer-term nature.

While the existence of institutions’ internal disclosure policies and procedures cannot be directly observed by assessing public disclosures, the extent to which institutions disclose information that underpins their materiality assessment and other relevant sources and references can. To that end, in Section 4.1.2, it is first determined whether disclosures of climate-related risks can be observed. For institutions that do not disclose climate-related risks, the extent to which the absence of disclosures is supported by a substantiation of the non-materiality of the information is evaluated. For institutions that disclose that information, the extent to which the information provided cites relevant methodologies, definitions and criteria is evaluated.

[15] See Article 431(3) of the CRR
[16] For more information, see Articles 433 and 434 of the CRR
3.1.2 Observations

Most institutions (86%) refer to climate-related risks in their public disclosures in some form (e.g. annual report). As this report will demonstrate, there are large variations in the comprehensiveness and depth across individual institutions. Nonetheless, by focusing on the existence of disclosures, the assessment reveals a clear positive trend in the number of institutions disclosing climate-related risks. The number of institutions that do not disclose any information on climate-related risks (and also do not give a reason why climate-related risks are deemed immaterial) has reduced substantially, from 35% in 2019 to 14% in 2020. Most institutions (58%) incorporate the information in their annual report. Other institutions include the information either in their non-financial disclosure report, in their Pillar III report, in a dedicated (e.g. TCFD) report or otherwise. One-third of the institutions spread the information across two or more reports.

Chart 1
Disclosures on climate-related risks with the potential to have a material impact

Although institutions increasingly refer to climate-related risks in their disclosures, around half of the institutions do not demonstrate that they have explicitly considered the potential strategic impact of these risks. Of the institutions that have demonstrated consideration thereof, 84% state that the risks have a strategic impact. It is worth noting that institutions that do not disclose such considerations have generally not described their risk management processes (68%), have not disclosed any climate metric (70%) and have not in any way described the potential impact of transition risks (81%) or physical risks (83%). Although the materiality of the impact cannot be readily evaluated on the basis of this information, it can be concluded that institutions within these categories do not offer stakeholders the opportunity to verify the perceived immateriality of the risks.

Institutions that deem the risks to be immaterial are expected to document this judgement with the available qualitative and quantitative information (Expectation 13.2 of the ECB Guide). For the group of institutions that state that the risks have no material impact, the substantiation given for non-materiality in their disclosures...
generally seem to diverge from the supervisory expectations that have since been specified (see the box below for further details).  

Observed practices 1
Substantiation of non-materiality

A number of institutions report on climate stress tests or pilot studies conducted to provide insight into how climate-related risks contribute to their overall risk profile or to the risk profiles of specific portfolios. A number of institutions also report on the methodology used and specific scenarios applied. A few institutions deemed climate-related risks to be immaterial as the associated contribution to the overall risk profile was stated to be limited. As the institutions had not disclosed any figures or detailed findings to support that assessment, stakeholders cannot verify the conclusions drawn. Some institutions also reported that losses and/or litigation costs arising from climate-related risks had been limited and therefore did not expect the risks to materialise further. Some institutions did not provide any further substantiation or display an appreciation of the forward-looking nature of the risks. This means that stakeholders are not able to establish the (forward-looking) risks to which the bank is exposed. A number of institutions only consider materiality from the perspective of the institutions’ own operations (for example concluding that risks are limited because the institutions’ operations are low-carbon or carbon neutral) and fail to take into account the impact of climate change and environmental degradation on their clients’ risk profiles.

As stated above, the TCFD recommends institutions to disclose information on climate-related risks as part of their governance and risk management processes regardless of their materiality. Most of the institutions that do not disclose the results of any materiality assessment or that report climate-related risks to be an immaterial category have not implemented this recommendation (see Chart 2). Stakeholders are therefore not able to evaluate whether institutions have appropriate processes in place that would enable them to observe the materialisation of the risks and respond to them in a timely manner.

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19 Institutions may have adequately documented their judgement with the available qualitative and quantitative information in internal documents. However, the assessment of internal documents is beyond the scope of this report.
Observed practices 2

Materiality assessment

A number of institutions report the use of scenario analyses to understand the potential impact of events related to physical or transition risks on key clients, portfolios or sectors and to substantiate the assessment of materiality of climate-related risks. Some institutions state that they incorporate climate or broader ESG considerations, either developed internally or in the form of an external party score, into the credit-granting process and aggregate this information in order to evaluate the risks for portfolios at large. Other institutions have based the assessment of materiality on a high-level review of the geographical and sectoral exposures of the institutions. Although these examples demonstrate a degree of transparency, it should be noted that institutions typically do not report the detailed figures obtained through these exercises.

A number of institutions refer to the multi-stakeholder process that underlies their materiality assessment in their sustainability reporting. The institutions solicit the views and input of a large variety of stakeholders, including interest groups, to better understand key trends and to focus their reporting on those aspects that stakeholders rank particularly important. Such practices are likely to yield relevant insights from a sustainability reporting point of view (e.g. social or environmental materiality), but it should be noted that this kind of process is unlikely to be sufficient to substantiate (financial) non-materiality of climate-related and environmental risks for the institutions’ business strategy and risk profile.

It has been observed that only 12% of the assessed institutions provided complete references to the methodologies, definitions and criteria associated with disclosed metrics, and 26% provided only partial references. These proportions were heterogeneous across business lines, with almost two-thirds of the globally

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20 For example, for sustainability reporting in the context of the standards of the Global Reporting Initiative
systematically important banks and promotional lenders disclosing at least partially the methodology, while less than a third of the retail lenders or asset managers did so.

The ECB expects (Expectation 13.3 of the ECB Guide) that when institutions disclose figures, metrics and targets as material, they disclose or reference the methodologies, definitions and criteria associated with them.

**Observed practices 3**

**Non-SSM host banks**

13 institutions with headquarters in non-SSM countries, in the United States, Canada, Switzerland, the United Kingdom and Sweden, were included in the review sample. They were considered at international consolidation level. It was observed most of the large institutions provide detailed climate-related disclosures covering governance, strategy and risk management, and that they also have metrics and targets in place. The shortcomings identified were similar to those observed for large SSM institutions, such as a lack of clear references to methodologies or the weak articulation among the different elements that were disclosed. Only a few of these institutions provided climate related disclosures at the SSM level of consolidation. Some of them referred to the group policy, but they rarely provided, for example, metrics and targets adjusted to the SSM subsidiary perimeter. Furthermore, where it was possible to identify several SSM subsidiaries, it appeared that climate-related disclosures were neither fully aligned nor consistently disclosed.

### 3.2 Business model and strategy

Less than one third of the institutions assessed disclose the potential impact of transition risk on their business model in the short and long term. This proportion is even smaller for physical risk. In both cases, they make no clear distinction available between short-term and longer-term assessments. Only a limited number of institutions disclose clear mapping of climate-related risks on existing categories of risks, impacts on the strategy and mitigating actions to be implemented.

#### 3.2.1 Introduction

The European Commission’s Supplement on reporting climate-related information highlights the importance “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.” The Supplement integrates the recommendations of the TCFD that institutions are recommended to disclose the actual and potential impacts of climate-related risks and opportunities on the organisation’s businesses, strategy and financial planning. In Paragraph 13.6, the ECB Guide sets expectations for institutions to disclose the KPIs and KRIs used for the purposes of strategy-setting.
In the assessment, it is observed that if institutions disclose the impact that physical and transition risks have on their business strategy across both the short term and the long term time horizon, such information also provides a proxy for understanding if they consider climate-related and environmental risks in their materiality assessment. In addition, it is investigated whether institutions disclose any climate-related risks and if these risks are assessed to potentially have a material strategic impact on their business. The review of this information gives an overview of how many institutions have assessed climate-related risks in their strategy-setting process.

### 3.2.2 Observations

A total of 49% of the institutions sampled do not disclose whether climate-related risks, either transition risk or physical risk, have any kind of impact on their business strategy. While these are mostly smaller institutions, also some larger institutions make no disclosures in this respect. 12% of institutions disclose the impact of either physical risk or transition risk on their business strategy, while 39% of institutions disclose both.

**Observed practices 4**

**Disclosures of the impact on strategy**

The institutions which did not disclose the impact of climate-related risks on their business strategy mostly took a corporate social responsibility approach, focusing their disclosures on the impact of their activities on the environment. Such institutions have not disclosed how they (and their counterparties) may be impacted by climate change. Some of these institutions outline, in their disclosures, plans to start analysing the impact of climate-related risks on their business. However, in many cases, these are just general statements and do not contain any details on the methodologies and tools that will be used.

Conversely, institutions that disclose the impact of climate-related physical or transition risks on their business strategy, mainly cover the qualitative angle. Most institutions refer to the concepts of policy changes and stranded assets to clarify any impact on the business strategy. Some institutions disclose that they conduct stress testing or scenario analysis, but very few also disclose the quantitative outcome of such assessments.
Across the sample, we find that around half of the institutions (54%) do not disclose the impact of transition risk on their business strategy. For those that do, it is interesting to look at the time horizon for the assessment of the impact. Some 30% of institutions disclose the impact of transition risk on the business strategy in the short and long term. The remaining 16% only disclose the impact across one time dimension, either over the short term (10%) or the long term (6%).

When grouping the responses according to the size of the respondents’ balance sheet, a clear trend emerges in terms of disclosures: the larger the balance sheet, the more likely it is that the bank discloses the impact both in the short and the long term. Some 79% of institutions with balance sheets larger than € 500 billion disclose the impact of transition risk in the short and the long term, compared with 8% of institutions with balance sheet smaller than € 30 billion.

The existence of disclosures increases constantly with regard to transition risk in line with asset size, as does the percentage of institutions describing the impact in both the short and the long term.
Observed practices 5
Disclosures on lending policies for sectors subject to transition risk

Few institutions disclose extracts from their lending policies that describe how they engage with sectors affected by transition risk. Some institutions disclose that they finance the renewal of fleets (e.g. cars, ships or aeroplanes), which improves the environmental footprint of the counterparties. Other institutions disclose that they have implemented exclusion policies for assets with high carbon emissions and no possibility of transition. Conversely, a number of institutions disclose that they finance technological improvements that reduce the probability of the underlying assets to become stranded. In general, these institutions link the achievement of sustainability targets with changes in the interest premium. A higher sustainability achieved by counterparties lead to a reduction in the interest rate of loans, conversely a poor performance might lead to an increase in the interest rate. These pricing arrangements signal that, despite lack of precise quantification tools, some institutions recognise that climate (transition) risk is a driver of credit risk for the counterparties, and start to adjust their lending policies accordingly.

Fewer disclosures exist on the impact of physical risk on the institutions’ business strategy, than for transition risk. Some 56% of institutions do not disclose the impact of physical risk on their business strategy. Of those that do, 24% disclose the impact of transition risk on the business strategy in the short term and in the long term. The remainder only disclose the impact in the short term (13%) or only in the long term (7%).

Once again, institutions with larger balance sheets disclose more information on the impact of physical risks on their business strategy. However, this percentage is lower for transition risk, with 54% of institutions with balance sheets larger than € 500 billion disclosing the impact of transition risk in the short and long term, and 25% making some disclosures on the impact, either only in the short term or only in the long term.
The trend in the availability of information in disclosures is less clear for banks with up to € 500 billion on their balance sheets: a similar share of institutions (around 45%) with assets from € 30 to 500 billion discloses information on the impact of physical risk on the business strategy.

**Chart 5**

Has the institution described the potential impact of climate-related physical risks on its business strategy?

<table>
<thead>
<tr>
<th>(percentages; size of the institution in € billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes, only in the short term</td>
</tr>
<tr>
<td>&lt;30</td>
</tr>
<tr>
<td>Yes, only in the short term</td>
</tr>
<tr>
<td>Yes, only in the short term</td>
</tr>
<tr>
<td>Yes, only in the short term</td>
</tr>
<tr>
<td>Yes, only in the short term</td>
</tr>
</tbody>
</table>

Source: ECB

Lastly, it was assessed whether institutions disclose the materiality of climate-related risks in their business strategy. Across the sample, 45% of institutions disclose that climate related risks with an impact on the business strategy have been identified. A breakdown of the institutions by size shows that the share increases up to 92% for institutions with a balance sheet larger than € 500 billion.

As stated earlier, approximately 9 in 10 institutions performing such an analysis find that climate-related risks have a strategic impact. This shows that, when assessing and reflecting on the implications of climate-related and environmental risks, institutions decide whether to include climate-related risks in their processes based on their impact on their business strategy.

**Observed practices 6**

Disclosures on strategic impact on the bank’s business

A number of institutions disclose comprehensive information on how climate-related risk can impact their business. In some cases, the institutions disclose clear mapping of climate-related risks, impacts on their strategy and mitigating actions to be implemented. For these institutions, it was observed that they tend to analyse the impact on their activities of climate-related risks already in the short to medium term, acknowledging the acceleration in the pace of the transition. However, only a few of these institutions complement their disclosures with specific targets or KPIs linked to the risks identified. Specifically, some institutions disclose how aligned their portfolio are to the main climate and transition scenarios, and report the related KPIs.
A number of institutions disclose the impact of physical risk on their business strategy in the medium to long term. Such institutions describe the financial impact via credit risk or legal risk. For credit risk, few institutions disclose the impact that acute or chronic physical events might have on their counterparties and, in turn, on their balance sheet. Confirming that the impact of physical risk is unrelated to the size of the institution, it was observed that banks of a smaller size or with less complex business models tend to disclose more precise information on the impact of physical risk in the medium to long term. It is interesting to note that some institutions also disclose the impact of physical risk stemming from legal risk. These institutions highlight the fact that financing projects or assets exposed to physical risk exposes them to future litigation related to the financial losses of the physical event.

3.3 Governance

Only half of the institutions provide disclosures on the board’s oversight of either climate-related risks or climate-related opportunities. While some institutions refer to the board’s involvement in climate-related topics, the form this involvement takes is not always described.

3.3.1 Introduction

In the ECB Guide, the ECB expects institutions to disclosure how climate-related and environmental risk are embedded into their governance framework. This supports market participants in understanding the level of an institution’s awareness of these risks and its ability to oversee and manage climate-related risk at the level of the board or a dedicated committee. The EU Supplement provides further guidance on organisational frameworks and policies that institutions may disclose to foster such understanding.

This report observes whether and how institutions disclose the board’s oversight of climate-related risks. In doing so, attention is also paid to the practices adopted by institutions in disclosing such information. The ECB’s analysis focused on board oversight as a key aspect of an institution’s disclosure, as it allows stakeholders to assess the institution’s governance on climate-related and environmental risks. Additionally, the ECB considers that, alongside a risk management framework, where a board has oversight over climate-related risks, this also allows stakeholders to draw informed conclusions about an institutions business strategy and business objectives.

3.3.2 Observations

Just over half of the institutions make disclosures on the board’s oversight of either climate-related risks or opportunities. Of these, the vast majority provide information on both risks and opportunities, while one fifth of institutions disclose on the board’s
oversight of one of these aspects only – either risk or opportunities. This might indicate a non-holistic approach to the issue.

In reverse, around half of the institutions provide no disclosures on the board’s oversight on climate-related risks and opportunities. While there is little difference across business models, larger institutions tend to disclose more and richer information.

About half of the institutions analysed (53%) provide disclosures on the board’s oversight of climate-related opportunities, irrespective of the extent or substance of such disclosure.

A pattern was observed whereby larger institutions are disclosing such information, whereas smaller institutions do not. Some 47% of all institutions do not disclose any information on the board’s oversight, whether it is direct, conducted by individual members, or through committees.

**Chart 6**

Share of institutions that disclose the board’s oversight of climate-related risks

(Percentages, size of the institution in € billion)

<table>
<thead>
<tr>
<th>Size of Institution</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;30</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>30 - 100</td>
<td>40%</td>
<td>60%</td>
</tr>
<tr>
<td>100 - 500</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>&gt; 500 billion</td>
<td>100%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: ECB

To conclude, nearly half of the institutions do not disclose any information to stakeholders on how their board, or a designated committee, oversees climate-related risks. It may be difficult to evaluate how the management of climate-related risks is embedded in the governance framework. For larger institutions, this information is available to stakeholders, even if it sometimes takes a very basic form. Virtually all of the largest institutions disclose information on the board’s oversight of climate-related risks. The existence of disclosures is strongly related to the size of the institution rather than its business mode.

**Observed practices 7**

Involvement of the board and senior management

While some institutions make strong statements regarding the involvement of the board in climate-related areas, the form this involvement takes (for example through regular committees or
direct reporting lines) is not always described in detail. It was observed that some institutions provide useful and very visual organisational charts describing the managerial and board tasks and responsibilities, sometimes including transparency on the related remuneration components. However, in disclosures by other institutions, it is stated that the board acknowledges the relevance of the topic, but without explaining what the board does about it. It also appears that, from a governance perspective, climate-related risks are often described in the context of corporate responsibility, rather than describing their relationship with or similarity to other banking risks.

3.4 Risk management

One in two institutions have publicly described their processes for identifying, assessing and managing climate-related risks, of which only a minority have done so comprehensively. Less than one quarter of institutions refer to the use of climate-related scenario analysis in their disclosures and even fewer refer to stress testing, although many institutions disclose that work in these areas is under way. Institutions that have integrated climate-related risks in their credit risk management policies typically refer to the use of a combination of sectoral approaches, ranging from the exclusion of certain sectors to heightened engagement with clients in identified sectors.

3.4.1 Introduction

The European Commission’s Supplement highlights the importance for investors and other interested stakeholders to know how the company identifies climate-related risks, the main risks it has identified, and how it manages those risks. It states that disclosures are expected to include a description of the company’s processes for identifying and assessing climate-related risks over the short, medium and long term, as well as a description of these risks. Furthermore, it expects that the disclosures incorporate a description of the processes for managing climate-related risks and how the processes for identifying, assessing, and managing climate-related risks are integrated into the company’s overall risk management. Disclosing how an organisation identifies, assesses and manages climate-related risk is also the subject of a recommendation by the TCFD.

The ECB has analysed financial institutions’ risk management disclosures with regard to climate-related and environmental risks in relation to the TCFD, the Supplement and the ECB Guide. Given that the analysis is based on publicly available information, only a limited number of the expectations that have been since specified with regard to risk management could be assessed.
3.4.2 Observations

It is noted that 57% of institutions have publicly described their processes for identifying, assessing and managing climate-related risks, of which 18% have done so comprehensively. This is a significant increase on the assessment conducted for the reference year 2018, when 42% had done so, of which only 4% comprehensively. The vast majority (87%) of the largest institutions have described such processes, up from 62% last year.

Scenario analysis and stress testing of climate-related and environmental risks are important aspects of the ECB Guide (Expectation 11). However, only 24% of institutions refer to the use of climate-related scenario analysis in their disclosures and even fewer (9%) to stress testing. A marked increase was observed since the previous assessment, when only 9% of institutions referred to climate-related scenario analysis and just 1% to stress testing. This increase far exceeded the proportion of institutions that, last year, had not yet done any climate-related scenario analysis or stress testing, but had revealed plans to do so in the near future. In this year’s assessment, 9% of institutions indicated plans to use scenario analysis or stress testing in the near future. 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 risk management tools.

It has been observed that the smallest institutions refer to the use of such tools slightly more than the average; medium-sized institutions only about half as much as the average, and the largest institutions almost three times the average. This highlights an important aspect of climate-related and environmental risk: being a smaller institution in terms of asset size does not necessarily mean less exposure to climate-related and environmental risks; on a relative basis, the opposite may be true.

**Chart 7**

Does the bank refer to the use of climate-related scenario analysis and/or climate-related stress testing in its disclosures?

(Percentages, size of the institution in € billion)

<table>
<thead>
<tr>
<th>Size of Institution (€ billion)</th>
<th>Scenario Analysis and/or Stress Testing</th>
<th>No, but it has revealed plans to do so in the near term</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;30</td>
<td>Blue</td>
<td>Yellow</td>
<td>Black</td>
</tr>
<tr>
<td>30 - 100</td>
<td>Blue</td>
<td>Yellow</td>
<td>Black</td>
</tr>
<tr>
<td>100 - 500</td>
<td>Blue</td>
<td>Yellow</td>
<td>Black</td>
</tr>
<tr>
<td>&gt; 500</td>
<td>Blue</td>
<td>Yellow</td>
<td>Black</td>
</tr>
</tbody>
</table>

Source: ECB
Expectation 8 of the ECB Guide, in the Section dedicated to risk management practices, is for financial institutions to consider climate-related and environmental risks at all stages of the credit-granting process and to monitor those risks in their portfolios. We note that 54% of institutions have described how the assessment of climate-related risks and opportunities is factored into their credit underwriting policy, for instance by excluding or limiting exposure to certain sectors. In last year’s assessment, only 32% of institutions had done so. A clear correlation with size is observed: more than 83% of the largest institutions have described such an assessment, but less than 30% of the smallest ones. Interestingly, all but one of the promotional lenders described this, compared with only one in last year’s assessment.

**Observed practices 8**

**Climate-related scenario analysis and stress testing**

A number of institutions have been performing scenario analysis and stress testing, often with the help of specialized consultants and international organisations, by using scenarios described by the International Energy Agency for transition risks and by the Intergovernmental Panel on Climate Change for physical risks, sometimes complemented by scenarios based on local or regional circumstances. Such assessments have sometimes been done together with peers, providing opportunities to learn from each other and discuss challenges.

Moreover, a limited number of institutions are disclosing to what extent their current exposures, mostly for a select number of sectors, is compatible with the goals of the Paris Agreement. This is typically based on their clients’ current GHG exposures, combined with plans to reduce these over time. Such disclosures provide transparency on potential risks to institutions’ stakeholders. If, according to the scenarios that are run as part of this assessment, certain clients’ GHG emissions or planned reductions are incompatible with the goals of the Paris Agreement, institutions declare they would engage with such clients and may even end the relationship. However, even the largest institutions recognize this is still a work in progress due to data and methodological constraints.

**Observed practices 9**

**Integration of climate-related risks in credit underwriting policies**

Institutions that have integrated climate-related risks in their credit underwriting policies typically use a combination of sectoral approaches, ranging from the outright exclusion of certain sectors (e.g. thermal coal) to heightened engagement with clients in other carbon-intensive sectors (e.g. energy, mining and steel production). In several cases, institutions were developing more granular segmentation of their clients, and classifying them into groups with similar levels of vulnerability to climate-related risks (with, most often, a focus on transition risk). Besides high-level policy distinctions, such segmentations are also used as adjustments or inputs to internal ratings, which in turn influence desired exposures and pricing: some pricing benefits applied to certain sectors or mortgage types were identified internally as “green” (i.e. with presumed lower exposure to transition and/or physical risks).
3.5 Metrics and targets

Just over one third of the institutions assessed disclose both targets and metrics, and only a minority discloses quantitative information about the carbon intensity of their portfolios. Reporting of greenhouse gases (GHG) emissions typically incorporates Scope 1 and 2 emissions, and more rarely downstream emissions (Scope 3) from portfolios. Targets are not always supported by the relevant metrics, making it difficult to assess the performance of the institution against them.

3.5.1 Introduction

As stated by the TCFD report, investors and other stakeholders need to understand how an organization measures and monitors its climate-related risks and opportunities. Access to the metrics and targets used by an organization allows investors and other stakeholders to better assess the organization’s potential risk-adjusted returns, ability to meet financial obligations, general exposure to climate-related issues, and progress in managing or adapting to those issues. They also provide a basis upon which investors and other stakeholders can compare organizations within a sector or industry.

Metrics and targets are usually key requirements in the various frameworks for regulation, expectations or guidance on climate-related disclosures. According to the NFRD, companies should disclose key performance indicators relevant to their particular business. They should therefore consider using indicators to support their climate-related disclosures, such as those measuring outcomes or principal risks and their management, and to allow for aggregation and comparability across companies and jurisdictions. In the ECB Guide, paragraphs 13.5 and 13.6 set expectations for institutions to disclose Scope 1, 2 and 3 GHG emissions, as well as the KPIs and KRI used for the purposes of their strategy-setting and risk management. The TCFD recommends companies to disclose the indicators and targets used internally to assess climate-related risks and opportunities in line with their strategy and risk management processes.

This assessment focused on the existence of both climate-related targets that were active in the reporting year and of climate metrics in the form, among other things, of: i) the amount or percentage of carbon-related assets in each portfolio in EUR or as a percentage of total portfolio value; ii) the carbon footprint of one or more portfolios; iii) the weighted average carbon intensity of each portfolio; iv) exposure or volume of collateral by geography/country of location of the activity or collateral; and v) the exposure or volume of collateral related to assets or activities in climate change mitigating sectors. The assessment also covered whether disclosures exist on the measurement of Scope 1, 2 and 3 GHG emissions.
3.5.2 Observations

Less than half of the institutions disclosed metrics or targets (50% disclosed metrics and 47% disclose at least one active target). Taken together, this represents only 37% of institutions disclosing both metrics and targets. While this is an improvement in comparison to the previous reporting year, the existence of such disclosures varies greatly across institutions and business models. For instance, the share of institutions having neither target nor metrics represents only 4% of institutions with more than € 500 billion asset size but as much as 56% of institutions with less than € 30 billion asset size.

Only a few of these metrics referred to in the ECB Guide\textsuperscript{21} or in the Supplement could be identified in the disclosures of the assessed institutions. Only 8% of all institutions reported on the percentage of carbon-related assets in each portfolio, 14% on the carbon footprint of one or more portfolios (usually limited to the non-financial corporate portfolio), and just 4% reported either on the collateral exposed to physical risk or on collateral in relation to climate change mitigating sectors. Most of the metrics reported actually referred to other categories, inter alia Scope 1 and Scope 2 emissions. Disclosures on exposures to carbon-intensive activities are in general missing, despite being a key element of the Supplement. When metrics were reported, they were often neither related to targets nor to risks.

Chart 8
Has the bank disclosed any climate metric? If so, which ones?

<table>
<thead>
<tr>
<th>Metric</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of carbon-related assets in each portfolio</td>
<td>10%</td>
</tr>
<tr>
<td>Carbon footprint of one or more portfolios</td>
<td>20%</td>
</tr>
<tr>
<td>Weighted average carbon intensity of each portfolio</td>
<td>30%</td>
</tr>
<tr>
<td>Exposure of collateral by country of location of the activity or collateral</td>
<td>40%</td>
</tr>
<tr>
<td>Exposure of collateral related to assets in climate change mitigating sectors</td>
<td>50%</td>
</tr>
<tr>
<td>Other</td>
<td>60%</td>
</tr>
<tr>
<td>None of the above</td>
<td>70%</td>
</tr>
</tbody>
</table>

Source: ECB

Observed practices 10
Scopes 1, 2 and 3

In the banking sector, Scope 3 (which includes downstream emissions stemming from investments) could be expected to represent the most significant part of total emissions. While most of the assessed institutions at least report some of their Scope 1 or 2 emissions, only a few provide a

\textsuperscript{21} Expectation 13.5: Institutions are expected to disclose [...] the amount or percentage of carbon-related assets in each portfolio [...]; the weighted average carbon intensity of each portfolio [...]; the volume of exposures by sector of counterparty [...]; credit risk exposures and volumes of collateral by geography/country of location of the activity or collateral.
In particular, many institutions disclosed Scope 3 emissions without incorporating the full downstream impact, focusing for instance only on the impact of business trips. Some of the reported reasons for this discrepancy seem to relate to the difficulties in monitoring these Scope 3 emissions, produced by their customers. Second, the calculation of such emissions appeared to be challenging for several institutions, notably as a result of the lack of a consistent methodology and access to a comprehensive source of reliable data. As a result, most targets relating to own emissions concerned Scope 1 and 2 emissions only.

Under ECB Expectation 13.6, institutions are expected to disclose the KPIs and KRIs they used for their strategy-setting and risk management, as well as their current performance against these metrics. It appears that 74% of institutions do not have such KPIs and KRIs in place, while 10% have them, but do not disclose performance against them.

**Observed practices 11**
**Linking metrics, targets and GHG emissions’ reduction**

A disconnect was observed in several disclosures between metrics, targets and declared alignment with the goals of the Paris Agreement or “climate neutrality” when stated as such. For instance, an explanation is not always included with the disclosures showing how the targets in place would concretely ensure an overall significant reduction of Scope 3 GHG emissions. Furthermore, it was observed that when referring to the abandonment of the financing of certain assets, the magnitude and impact of the measure were not disclosed for instance, in terms of amount or proportion of the portfolio at stake. In their disclosures, many institutions set out objectives of green financing or issuance of green bonds, without always referring to the taxonomy used or calculating the impact of the institution’s own emissions.

Nonetheless, it was also observed that several institutions provided detailed metrics by calculating GHG-intensity targets to be achieved by 2040 or 2050 by industry sector. They also disclosed the progress made by the institution against the targets. In addition, they disclosed the methodologies used in setting the sectoral targets, such as PCAF and PACTA, when reporting on GHG emissions, in particular by sector.

**Observed practices 12**
**Environmental risk disclosures beyond climate-related risks**

While this report has placed emphasis on institutions’ climate-related disclosures, financial risks emanate from a broad range of environmental factors beyond climate change, including water stress,
biodiversity loss, deforestation, resource scarcity and air, water and land pollution. The ECB Guide sets out the expectation for institutions’ to disclose further other environmental information with a view to comprehensively disclose their risk profile. More than half of the sample does not include any reference to environmental risks related to their financing activities. A number of institutions voice awareness about the extent to which environmental degradation can drive risks for the banks. In substance, this mostly pertains to biodiversity loss, deforestation, and sourcing of raw materials in the supply chain. However, institutions do not go beyond high-level descriptions of the potential impact of environmental degradation on human well-being and economic activity in general. Institutions do not display evidence that they have considered the potential impact of these developments on their own risk profile or business model. Some institutions do describe how they integrate environmental considerations in their due diligence and risk management procedures, with a view of ensuring responsible business conduct while limiting reputational risks. However, these disclosures generally lack detail and do not describe how specific issues are taken into account. Notably, a number of institutions have made considerable progress towards calculating and disclosing their biodiversity footprint. While footprinting methodologies have a variety of applications, they can be usefully deployed to support the management of risks and to increase institutions’ resilience, thus contributing to the comprehensive disclosure of an institutions risk profile.

Moreover, there is evidence that such environmental risks mutually reinforce climate change and can drive risks to the real economy and financial institutions through a multitude of transmission channels simultaneously. Deforestation, for instance, is responsible for over 10% of global GHG emissions. It drives risks directly through potential reputational damage for the financial institutions, or through reputational damage of clients, which in turn drives credit and market risks. Moreover, it drives risks indirectly through its contribution to climate change, which exacerbates climate-related physical and transition risks for all economic actors.
