EACB answers to the Report on climate-related disclosures by the Technical Expert Group on Sustainable Finance

Question 1. Do you have any comments on Chapter 2 "Disclosures under the Directive: Principles and Rationale for Non-Financial Reporting" of the report?

Answer 1.

The European Association of Co-operative Banks considers the work of the Technical Expert Group on climate-related disclosures as an important step and welcomes the possibility to comment on the Report. On the specific question on Chapter 2, the EACB cautions not to overlap other parts of legislation with the ones related to non-financial reporting (NFRD). Since the banking sector is subject to an extensive set of regulatory and supervisory requirements (i.e. risk management Pillar 3, CRD IV), the addition of further climate-related criteria has to be consistent with the financial information disclosed under those other regulatory requirements, in order not to create uncertainty and grant consistency in carrying out the obligations. Moreover without disregarding the obligation to disclose impacts of the bank's operations on the environment, as stated in the NFRD, given the uncertainty surrounding the ongoing work in terms of the climate-related Taxonomy, we consider that banks climate-related disclosures should be developed gradually and start mostly as a qualitative and forward-looking information tool regarding climate-related objectives and achievements, rather than a risk-disclosure tool. This until the open questions on the taxonomy and other regulatory initiatives on sustainable finance have reached the necessary maturity.

Q2. Do you have any comments on Chapter 3 "Alignment of NFRD and TCFD" of the report?

Answer 2.

The EACB believes that there is a satisfactory degree of alignment between the NFRD and the TCFD.

Q3. Do you have any comments on Chapter 4.1 "Business Model" of the report?

Answer 3.

Disclosures regarding the business model should be focused on climate-related impacts and opportunities already integrated or planned to be integrated within the core of the bank specific activity.

The disclosure of information regarding climate-related risks impact on profitability, debt financing or even future regulatory burdens must be carefully addressed in order to avoid inconsistencies with other risk-related information disclosed by banks.

Further, linking the potential impact of climate risk changes on to the profit and loss, cash flow statement and balance sheet of the company needs more study. In our view this will only become relevant information when a reporting model is developed that all producers and users of information understand and apply.

EACB AISBL – Secretariat • Rue de l'Industrie 26-38 • B-1040 Brussels

Tel: (+32 2) 230 11 24 • Fax (+32 2) 230 06 49 • Enterprise 0896.081.149 • lobbying register 4172526951-19

www.eacb.coop • e-mail : secretariat@eacb.coop

Implementation of disclosure requirements leads to high processing costs, which binds relatively high personal capacities and financial resources especially in smaller co-operative banks. We therefore find it necessary to consider a more flexible and gradual approach to the disclosure requirements.

Q4. Do you have any comments on Chapter 4.2 "Policies and Due Diligence Processes" of the report?

Answer 4.

The EACB believes that the inclusion of due diligence processes is necessary to verify not only the ability of the bank to declare its own information related to the climatic risk, but also to monitor over time the degree of maturity of the bank itself in integrating these principles in its strategic planning. However, we must ensure that these policies and processes do not translate into disproportionate costs for institutions that must then comply with the asked requirements.

Q5. Do you have any comments on Chapter 4.3 "Outcomes" of the report?

Answer 5.

The EACB recommends that disclosure regarding "Outcomes" by banks must focus on qualitative analysis of their actions to limit the climate-risks in the area in which they operate, rather than on a quantitative analysis based on the amount of information collected from the companies, that is still today difficult to realize due to the lack of information that the same can provide.

Q6. Do you have any comments on Chapter 4.4 "Principal Risks and Their Management" of the report?

Answer 6.

EACB Members consider that there are too many uncertainties related to the criteria for defining the "Principal risks" that will be produced mostly by the proposal on taxonomy. Thus it is currently difficult to give answers to this question.

Q7. Do you have any comments on Chapter 4.5.1 "General and Supplementary KPIs" of the report?

Answer 7.

The EACB would like to draw attention to the provision of scope 3 information regarding "all indirect emissions along a value chain". This issue will become very challenging for banks: if on one hand the declaration on bank's climate impacts can be relatively easy to apply and formulate, on the other hand reconstructing the climate impacts of the entire value chain on the environment is likely to be a challenge, as it would have to rely on climate information provided by companies. This may be in certain instances very difficult. Indeed since entities, like SMEs in particular (typically clients of local and regional co-operative banks), do not publish the requested information; it would be extremely difficult to operationalize.

EACB AISBL – Secretariat • Rue de l'Industrie 26-38 • B-1040 Brussels
Tel: (+32 2) 230 11 24 • Fax (+32 2) 230 06 49 • Enterprise 0896.081.149 • lobbying register 4172526951-19
www.eacb.coop • e-mail : secretariat@eacb.coop

Q8. Do you have any comments on Chapter 4.5.2 "Sectoral and Company-specific KPIs: Non-financial Companies" of the report?

Answer 8.

In line with the criteria laid down in Point 4.5. of the NBGs on NFRD, further work on the development of climate-related disclosures must be, as much as possible, aligned with the ongoing regulatory work on the integration of ESG factors in banks' organizational requirements and services/products manufacturing and distribution procedures, in order to ensure an integrated and consistent approach for any future legislative work on NFRD revision with impacts to bank industry.

It is worth mentioning that when stating that banks should focus on Scope 3 GHG emissions, underlining the challenges associated with it, we should be aware that this will depend on further disclosure, at least, by corporate clients on their own GHG emissions. Given the recognized lack of available robust methodologies in the market, as stated in the report, we urge for further developments in this area, as to foster the comparability and completeness of such information and improve the reach of financial intermediation activities in disclosing information regarding Scope 3 GHG emissions.

Q9. Do you have any comments on Chapter 5 "Sector specific Guidance: Banks and Insurance Undertakings" of the report?

A9.

5.1. EACB Members have no objections against informing, how the business model is affected by climate-related risks; but they have reservations on the other aspects mentioned.

Although fully understanding the importance of the banking sector in mobilizing capital for a sustainable economy, this requires actions on two fronts: shifting the current capital allocation to a sustainable pathway and filling the investment gap. Thus, disclosing, "whether the institution gives preference to counterparties with climate resilient strategies" (p. 33), may not be helpful to support the not-yet-sustainable activities in their transition and shifting paths and risks creating "cliff effects", in terms of investment and finance.

5.2. Description of the governance of climate-related risks and disclosure of climate policies may cause high expenses for reporting processes, as internal processes have to be changed or enlarged. Therefore it is recommended to reduce the disclosure requirements for detailed regulation from "should disclose" to "may consider disclosing". In our opinion, a gradual approach is necessary.

It shall be underlined that several initiatives at a national and international level are ongoing to better integrating the climate-related risks, in particular for what concern transition risks. Co-operative banks are following with interest those reflections on the different methodologies, as they are active players in financing the energy transition.

5.4. Regarding the guidance on "Principal Risks and Their Management" it is suggested to add some clarification and consistency to the Type 1 disclosures regarding ESG factors incorporation and their influence over "financial risk position" and "credit analysis" in order to avoid inconsistency or misleading information overlap between climate-related risk factors and other CRD IV Pillar 3 general risk disclosure by banks.

EACB AISBL – Secretariat • Rue de l'Industrie 26-38 • B-1040 Brussels
Tel: (+32 2) 230 11 24 • Fax (+32 2) 230 06 49 • Enterprise 0896.081.149 • lobbying register 4172526951-19
www.eacb.coop • e-mail : secretariat@eacb.coop

It would be worth to evaluate the merit of work on further guidance and principle-based approach promoting additional criteria for bank specific climate-related disclosures of risk and opportunities aligned and consistent with the CRD IV Pillar 3 general risk disclosure.

This approach would be useful to ensure that climate-related disclosures by banks will be used as an effective and qualitative set of information to allow all the relevant stakeholders to obtain more in-depth and critical information to properly assess the climate-related factors, risks and opportunities with significant materiality (in the sense of the Point 3.1. of the NBGs on NFRD) to the overall assessment of the climate-related impact over the general risk level and appetite disclosed by banks under CRD IV Pillar 3 requirements.

5.5. Tables 15 and 19: the data needed for calculation of key performance indicators can only be obtained with big efforts. We would like to emphasize that not every (small) bank will be able to disclose KPIs due to limited capacities. Therefore we recommend adapting the disclosure requirements towards "may consider" and minimize these disclosure requirements for smaller banks.

Q10. Do you have any additional comments on the report as a whole?

A10.The EACB recommends a gradual approach: there are still several open questions, starting with the development of the European taxonomy that it is still at its inception. Moreover the first annual reports complying with the NFRD are just being published this year. It seems premature to add further complexity to the exercise before having fully assessed the current implementation. Additionally further guidance, templates and testing would be necessary. For example taking into account the national and local climate-risk specificities or scenarios that may differ widely among countries and regions. We recommend the Sector guidance to be further developed to facilitate the users.

EACB AISBL – Secretariat • Rue de l'Industrie 26-38 • B-1040 Brussels
Tel: (+32 2) 230 11 24 • Fax (+32 2) 230 06 49 • Enterprise 0896.081.149 • lobbying register 4172526951-19
www.eacb.coop • e-mail : secretariat@eacb.coop