Brussels, 4th September 2020

EACB feedback to the Inception Impact Assessment on the Taxonomy Regulation delegated act specifying the requirements for entities subject to the Non-Financial Reporting Directive (NFRD)

The EACB and its members support the political targets for creating sustainable and climate-friendly regulatory frameworks and welcome the possibility to bring forward our comments on the inception impact assessment on the Taxonomy Regulation delegated act specifying the requirements for entities subject to the Non-Financial Reporting Directive (NFRD). We would like to emphasize the following points:

- Art. 8 of the new Taxonomy Regulation requires that both financial and non-financial undertakings subject to NFRD shall include in their non-financial statement, information on how the undertaking’s activities are associated with environmentally sustainable activities. For co-operative banks subject to NFRD, it would mean starting to report as of January 2022 on the percentage of their taxonomy aligned activities for the first two climate-related objectives of the taxonomy.

- When specifying the requirements for entities subject to the Non-Financial Reporting Directive (NFRD) we support the initiative of the European Commission to differentiate between non-financial and financial undertakings in the taxonomy regulation by taking into account their specifities, as business activities and accounting of non-financial and financial undertaking are different. Without data from their clients’, financial institutions will not be able to assess their portfolios with regards to ESG performance. Financial institutions will therefore use information published by their clients at year 1, in order to complete their reporting for year 2. It is therefore necessary to defer the publication of information by financial institutions by 1 annual exercise after the reporting of non-financial companies. In practice this would mean that if corporate (our clients) would report as of January 2022, banks and financial companies could use these data for reporting not before January 2023.

- We welcome the approach taken in the inception impact assessment by the Commission, needed to assess the workability and usability of the indicators. Indeed this new reporting is likely to have an impact especially on smaller cooperative banks (if included in the scope of the NFRD) in terms of costs, internal assets reclassification, IT system and organisation structure. In order to report, i.e. the percentage of green loans, our banks would have as pre-requisite to rely on clients’ “taxonomy aligned” data. However, our co-op banks clients’ portfolio is mostly composed of SMEs who do not report those data, nor have the capacity to do so. We thus urge the Commission to take data issues into account and ensure that the indicators to be defined for financial companies and specifically for banks are practical, clear, reliable and efficient. Indeed, the indicator should be narrowed down to the banking assets for which the

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information from customers is available and reliable. This means that entities excluded from the revised NFRD scope should not be included in the ratio.

- The scope of the indicators should also be reduced as much as possible to ensure it is applicable, meaningful and comparable. A misinterpretation in the form of "what is not green is brown and harmful" should be avoided:
    - Therefore, we suggest the creation of a set of indicators to be used in combination, if lending as well as investments should be included in the scope. One indicator will identify the percentage as the share of the total assets on the balance sheet which is made of securities and loan borrowers which are subject to the obligations defined by the NFRD. Within this portion, we suggest to use as another indicator the percentage of taxonomy compliant assets. This will guarantee better comparability of meaningful data between banks who finance mainly large corporates (already under the scope of the NFRD) and retail/cooperative banks who finance a large amount of small clients (who are not included in the scope of the NFRD and do not provide non-financial / taxonomy aligned information).
    - Furthermore, the scope of the ratio should be reduced by excluding assets for which the application of the taxonomy makes no sense: e.g. reserves in central banks, trading books, hedging derivatives, sovereign debt with no use of proceeds, etc.
    - We would suggest a phase-in and "future-looking" approach, according to which only the flow should be reported (ratio should only refer to new business).

- Due to the high correlation between the taxonomy regulation and the announced revision of the NFRD regulation, consistency with other reporting frameworks (Disclosure Regulation, Pillar III Disclosure) is necessary. In fact, a more standardized form of reporting could be introduced by the revised obligations of the NFRD.

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