20th March 2019

Final EACB answers to the EC report "On the update of the non-binding guidelines on non-financial reporting"

Question 1. Do you have any comments on Chapter 2 "How to use these guidelines" of the report?

Answer 1.

The European Association of Co-operative Banks considers the work on climate-related disclosures as an important step and welcomes the possibility to comment on the Report of the European Commission. On this specific question, the EACB cautions not to overlap other parts of legislation with the ones related to non-financial reporting (NFRD). The addition of further climate-related criteria has to be consistent with the financial information disclosed under other regulatory requirements, in order not to create uncertainty and grant consistency in carrying out the obligations. As it is stated in the report, we consider that banks climate-related disclosures should be developed gradually. Moreover we suggest to start mostly with qualitative and forward-looking information 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 3.1 "Business Model" of the report?

Answer 2.

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.

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. Scenario analysis could be instrumental to appropriately incorporate the potential effects of climate change into companies planning processes.

Implementation of disclosure requirements however also 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.

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Q3. Do you have any comments on Chapter 3.2 "Policies and Due Diligence Processes" of the report?

Answer 3.

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.

Q4. Do you have any comments on Chapter 3.3 "Outcomes" of the report?

Answer 4.

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 they can provide. This is particularly the case for SME's. Listed companies and large companies may have less difficulty. But as SME's are the main client group of cooperative banks, this is an issue that should be acknowledged. In this respect the proposed measurement via KPI's may be difficult to implement. We suggest that it should be looked into further.

Q5. Do you have any comments on Chapter 3.4 "Principal Risks and Their Management" of the report?

Answer 5.

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.

Q6. Do you have any comments on Chapter 3.5 "KPIs" of the report?

Answer 6.

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. If this "chain of information" would not be available for credit institutions, Banks could not have a whole vision of scope 3 disclosures and, consequently, take the responsibility to guarantee a consistent and complete report.

Requiring financial institutions to develop their own calculation methods is neither financially possible for all individual institutions nor realistically achievable. Possibly a simplified standard

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approach should be envisaged. Secondly, it should be recognized that such estimations could only be made when data are available.

Q7. Do you have any comments on Annex I "Proposed disclosures for Banks and Insurance companies to the report?

Answer 7.

EACB Members see the relevance of, informing how the business model is affected by climate-related risks; but they argue in favour of a proportionate approach.

Description of the management of climate-related risks and disclosure of climate policies may cause high expenses, in a context where the rest of the legislative framework is not still mature and clear enough to ensure availability of information at an acceptable cost. Therefore it is recommended to reduce the disclosure requirements for detailed disclosure. In our opinion, a gradual approach is necessary and we have to ensure that proportionality in terms of activities disclosed will be guarantee, in particular considering the differences between wholesale banks (larger amounts and fewer transactions) and retail banks (smaller amounts and more frequent transactions).

Regarding the guidance on "Principal Risks and Their Management" the EACB suggests 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.

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.

In the light of previous comments, for our banks it is important to know which disclosures banks *should* consider (type 1) and which *may* be considered (type 2). This distinction was made earlier on but is now not anymore present in the text.

Further clarification of the definition of carbon related assets is also key, most probably through the taxonomy. As it is stated by the TCFD the term "carbon-related assets" is "not well defined" (see *Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures*, p. 26, FN17).

In addition we would like to warn about pitfalls hidden in the calculation of the carbon intensity of portfolios in particular regarding the emissions of sovereign bonds.

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Q8. Do you have any comments on Annex II "Mapping of NFRD requirements and TCFD recommended disclosures" to the report?

Answer 8.

The EACB believes that there is a satisfactory degree of alignment between the NFRD and the TCFD. This annex goes in the same direction. However, it is also apparent that the transposition into a legislative proposal is not easy and straightforward yet.

Q9. Do you have any additional comments on the report as a whole?

Answer 9.

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. We call for an assessment of the current implementation first. Additionally further guidance, templates and testing will 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.

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