

C-ESG Risk Roundtable Data Workstream

**December
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Executive Summary

Multiple banks have made commitments in terms of their role in the transition towards a more efficient and sustainable economy, and thus face the need to mitigate the risks arising from the transition by their counterparties. These commitments are a valuable starting point in meeting transition planning requirements for banks under the Corporate Sustainability Reporting Directive (CSRD) and Capital Requirements Directive (CRD). In that context, the overarching purpose of this report was to create awareness among non-financial corporates as to how some of their publicly disclosed information under the CSRD could be used by banks and financial institutions alike, for risk management purposes and for assessing market practices across areas where data availability remains challenging.

A new cross-regulatory framework was developed for that purpose, allowing for the classification, mapping and prioritisation of CSRD datapoints within the CRD risk management lifecycle. As a result of these sustainability and prudential regulatory frameworks being combined, a hierarchy of those CSRD data points potentially most useful for banks was identified. In turn, a starting point is provided to initiate better dialogue between banks and non-financial corporates in this area. It should be noted, that the scope of the work was set according to the maturity and materiality of subtopics for banks within the European Sustainability Reporting Standards (ESRS); focusing on E1 Climate Change and E4 Biodiversity & Ecosystems-related disclosure requirements as further explained in Section 1.4 of this report. Thus, this report focuses on how banks may utilise publicly information from their counterparties in their risk management practices rather than how they will themselves prepare for their own CSRD disclosures.

Report conclusions

Applicability of corporate reporting for banks' risk management purposes

By connecting information which corporates subject to CSRD disclosures will publish, this report indicates those data requirements which banks assess to be of potentially highest importance for risk management purposes. Participating banks generally agreed on the usefulness of the assessed CSRD disclosure requirements for potential applicability for regulated and supervised risk management purposes. Through the upcoming CSRD corporate disclosures, banks are better positioned to apply qualitative and quantitative datapoints for different prudential risk management processes, such as counterparty risk assessments, scenario analysis and monitoring and reporting activities. The key contributions of the report were assessed in the working group and external reviewers as follows:



CSRD disclosure requirements are identified and mapped into the CRD risk management perspective and context, showcasing how banks may potentially utilize this information. This serves a twofold purpose: First, it informs non-banking corporates which datapoints can be applied and in what way, further developing and enhancing regulatory disclosures and data quality to meet their creditor's expectations. Second, by informing which of the key disclosure requirements are useful and applicable, it simultaneously may improve banks' ability to utilize the disclosed information, e.g., for overall risk management purposes.



Assessed CSRD disclosure requirements function as a concrete starting point for dialogue between corporates and banks, with regard as to how sustainability and ESG-related information can be used for prudential risk management purposes; ultimately feeding into the results of key processes, such as customer due diligence, customer risk assessments and credit ratings.



Overarching complexity of applying the CSRD disclosure framework further downstream is also brought front and centre. For example, some disclosure requirements are considered voluntary in nature, but are assessed herein as key information for banks as end-users. Conversely, some of the disclosure requirements deemed as mandatory information, are too detailed or complex, at least in their current form, for banks consumption in key risk management processes, resulting in potentially incomplete or low data quality. In such instances, further explanation or clarification is required for banks to be able to apply the datapoints in a consistent manner.

Key disclosure requirements

The following types of disclosure requirements by corporates are considered as highly useful by participating banks for their risk management purposes, based on a consistent framework described in chapters 2 and 3 of this report, and introduced applying a data hierarchy illustrating the need for the associated information. This is completed through assessing the disclosure requirements as either primary, secondary or tertiary importance. The overall findings are summarized and presented below, with an overall finding per risk management process step, cutting across all relevant ESG factors:



Assessment of inherent risk: The overall findings indicate that data received through CSRD disclosures functions as the starting point for climate and biodiversity-related inherent risk assessments, where the maturity varies across the ESG factors. Information on climate-related transition risks remains the most mature, biodiversity-related information as the second. Data for climate-related physical risk is assessed as most challenging from a CSRD perspective, as asset level location information is seen as a valuable but non-mandatory requirement. To assess physical climate-related risk drivers, banks need **granular information on the locations and significance of their counterparties' assets**. To assess transition-related climate risk drivers, banks would require datapoints on emissions (scopes 1, 2 and 3) as well as the production output associated with those emissions. For biodiversity & ecosystems-related disclosures, **quantitative information, such as analysis and assessments covering material geography-level impacts and sensitivity on the associated risk drivers** are seen as useful information for banks to make an informed (inherent) risk assessment. Banks also generally consider relevant and useful to understand whether any **land use or site-specific locations have been identified as having a negative biodiversity-related impact or are highly dependent on certain ecosystem services**.



Risk mitigation actions: CSRD requirements across climate- transition, physical and biodiversity & ecosystems-related disclosures associated with transition plans under the CSRD are assessed as a key component for banks' within their assessment of ESG-related risk mitigation, both at a portfolio and customer level. Banks own transition plans function as an aggregate of these plans, thus mirroring the underlying quality of those plans. **Information and datapoints associated with counterparties' transition planning** are assessed as key for both climate- and biodiversity & ecosystem-related aspects. In addition, detailed information on **insurance coverage and business continuity planning** is considered helpful to assess the possible mitigation of existing physical risk drivers.



Financial materiality of the residual risk: Banks are required to assess the financial materiality of the residual risk; thus, the overall result would benefit by a quality assessment conducted by the corporates themselves, as **the information on counterparty revenues and cost projections as well as the value of potential stranded assets are considered necessary; especially in the loan origination and monitoring processes of banks.** While the analysis across the industry for biodiversity & ecosystem related disclosures require further maturity, the **details of existing assessments remain highly important.** Banks would expect corporates to provide further information on the **remaining uncertainty within the conducted analysis and assessment.**



Information on the methodology of the performed assessment: Results indicate that the overall quality and granularity of the assessment determine how much of the information is potentially usable by the banks receiving this information. Any gaps in data quality and certainty must be supplemented by banks themselves, creating a potentially large reporting burden on corporates that disclose low quality assessments (i.e. need to provide information more than once). Where corporates disclose information on assessments of the **effects of transition and physical risk factors, the scope of the analysis, including at least the key risk drivers considered, the associated time horizons, materiality of those factors and the scenarios that were applied when performing the analysis should be disclosed.** Overall, the same conclusions and request for granular information consider both climate- and biodiversity & ecosystems related disclosures.

Challenges identified through the DWS

While application of the CSRD's ESRS is likely to increase and contribute to the availability and alignment of disclosed datapoints (supported by a certain level of prescriptiveness and evolving best practices of the disclosures) a number of challenges are expected to remain. Those challenges are expected to affect the applicability and availability of CSRD related datapoints:

Differences in the qualitative format, numerical quantification and granularity of corporate counterparties' CSRD disclosures will continue to exist, at least in the near-term, creating challenges for banks to further aggregate published data in a meaningful manner. This will limit banks' ability to accurately assess the associated risks and impacts, by affecting the certainty those assessments.

The period of **phase-in for disclosure requirements, both across topics and across companies of different sizes**, will inevitably lead to delays in the availability of the disclosed information across all corporates, increasing the reliance on proxies and therefore further reducing the level of certainty in banks' assessments. A large number of both European and non-European companies currently, and in the future, will remain outside the scope of the CSRD requirements, resulting in limited data availability for banks whose portfolios are consisted of corporates operating outside the EU or SMEs.

Finally, for both climate, and biodiversity & ecosystem-related disclosures, information availability is further restricted by the materiality aspect of the CSRD, feeding into banks' ability to assess their own materiality perspectives, as corporates may assess their risks in a different manner, resulting in e.g., an in accurate risk picture.



1. Introduction

1.1. Preamble

Financing of the transition towards more sustainable economies and societies has become a key priority for European banks. As billions of Euros are required to be directed towards reaching the European Union (EU) sustainability goals, European banks will play a crucial role in the transition. Transformation and management of financial risks will be a key element of the transformation of the EU economy towards reaching net zero targets.

As both environmental factors as well as the transition itself could be source of financial risk, it is essential to step up efforts to ensure that such risks are properly identified, understood, measured, managed, and supervised. Given that the risk profile of banks' portfolios is reflective of those of their clients, to mitigate risks banks are also rapidly deepening engagement with their counterparties to understand their transition plans and assist them in the necessary business transformation.

However, while banks are making tangible progress, they are facing numerous operational and implementation challenges, many of which are neither originated, nor inherent to the banking industry. While some will need to be addressed at the level of individual organisations, others benefit from collaborative approaches and collective solutions and discussions between banks and supervisors. To strengthen the dialogue within the banking sector and with the European Central Bank (ECB), an Environmental, Social, and Governance (ESG) Risk Roundtable (RT) coordinated by the European Banking Federation (EBF) was set up under the existing CEO RT, with the participation of 12 European banks, with the EBF and ECB as observers.

Number of dedicated Workstreams (WS) were established to discuss current practices, identify gaps and promote pragmatic and practical approaches, including interim solutions and disseminate the experience and knowledge to increase the level of collective awareness and deepen future dialogues on selected topics that are expected to further evolve over the time. While the number of banks participating in the RT is limited, the inherent benefit of banks working together to assess and disseminate shared suggestions to common challenges remains extremely valuable.

The previously issued reports from the Data WS, Scenario Analysis WS, Physical Risk WS and Collateral WS are published on the [EBF website](#). While the views in these reports are reflective of the discussions of the WS members and any suggestions included in these publications are of voluntary nature, the reports are being publicly shared to support and facilitate the implementation efforts of the banking industry and enhance harmonization where relevant and possible.

1.2. Objective of this report

The purpose of this report is to create awareness among non-financial corporates of how some of their publicly disclosed information may be used by banks for their risk management purposes and contribute towards assessing market practices across areas where data availability remains challenging.

Climate- and biodiversity & ecosystem-related disclosures and the associated metrics disclosed by corporates are already used by banks for the purposes of risk management, making collaboration across financial and non-financial industries increasingly valuable. As banks will shortly be collecting and assessing CSRD-related datapoints for the first time, this report represents a first collective effort to communicate towards industry counterparties on banks data needs, preferences, and potential use and application of the disclosed information in the context of bank's risk management.

With the support of EBF, the Data Workstream (DWS) also sought views and feedback from members of selected European level industry associations representing enterprises of all sizes across relevant business sectors, as well as accountancy and advisory. This engagement aimed to build a bridge and enhance awareness between financial and non-financial corporates on the use cases and application of publicly disclosed sustainability metrics with specific reference to the upcoming CSRD disclosures.

While the climate-related disclosures are more specific as a result of their greater maturity, the biodiversity & ecosystem-related disclosures are expected to further evolve in the coming years as knowledge, methodologies and understanding increase. As CSRD reporting requirements will start to apply for smaller corporates during the next few years, the breadth and maturity of the disclosed information is expected to increase. As the format and usability of these datapoints will require further maturation, the outcomes from this report present a point-in-time assessment by banks to which ESRS-driven information they see as most relevant and useful for risk management purposes. Banks may expect further development of disclosed metrics, impacting the conclusions of this report in the future.

1.3. About the Data Workstream (DWS)

The DWS under the C-ESG Risk Roundtable (RT) comprises of 12 participating banks, facilitated by Nordea Bank Abp, in its role as chair of the DWS, with significant support received from Internationale Nederlanden Groep (ING) acting as the co-lead for the climate-related sub-stream within the DWS.

In 2023, the DWS published its first report in 2023 on the identification of common practices for addressing data and methodological uncertainties associated with disclosures against Implementing Technical Standards (ITS) on prudential disclosures and ESG-related risks (Pillar 3). Link to the previous report can be found [here](#). In H1 2024 a second phase of the DWS work was launched, resulting in publication of this second report. Although the number of banks participating in the DWS is relatively limited, the inherent benefit of banks working together to assess and disseminate shared suggestions to common data-related challenges remains extremely valuable.

1.4. Scope of the report

The scope of the DWS's work was defined based on a survey of participating banks conducted in May 2024, to identify which environmental topics under ESRS[1] – the reporting standards under the CSRD[2] – should be covered by the DWS. The ESRS include detailed disclosure requirements for companies to report on topical ESG-related matters. The extent to which the requirements are prescriptive and standardised varies across the ESRS, where e.g., climate change mitigation (E1) is significantly more prescriptive and standardised than biodiversity & ecosystems (E4). As a result of the scoping process, the following ESRS[1] were selected for review:

- a) ESRS E1: Climate change mitigation and adaptation
- b) ESRS E4: Biodiversity and Ecosystems

[1] <https://xbrl.efrag.org/e-esrs/esrs-set1-2023.html>

As corporates prepare for their CSRD[2] disclosures, participating banks were predominately interested in discussing on topics around risk management processes, such as, customer risk assessments and the associated risk mitigating potential of corresponding 'transition plans'.

The selected disclosures are generally considered necessary to assess the inherent climate- and biodiversity & ecosystems-related risk profile, the mitigating actions and plans to transition towards a lower inherent risk, and an estimate of the residual risk. In addition, certain disclosures should provide banks with relevant (risk) information regarding the robustness of customer's risk management and the associated risks (e.g., of default) through improved data quality and harmonized methodologies.

Finally, as the scope of the DWS covers only certain selected ESRS topics, banks do acknowledge that some meaningful data requirements are left out of this assessment, as the selected standards are not an exhaustive list of all data requirements up for disclosure. The scoping was completed in agreement with participating banks, to inform areas where data-related challenges are seen to require further attention and development, and it should not limit the corporates that are required to follow the overall CSRD requirements. The scope selection and definition process are further explained in Chapter 2.1.

The conclusions of the DWS were gathered through a stepwise process: First, via centrally administered questionnaires, where feedback was incorporated and disseminated into this report, and second, through organized workshops where participating banks and experts provided feedback on outcomes of the scoping survey and questionnaires regarding the selected ESRS. Observations from both steps were consolidated and further discussed and evaluated to inform this report.

[2] <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32022L2464>

1.5. Disclaimer and considerations

Corporates are encouraged to take note of and be aware of the regulatory and supervisory requirements that European banks face regarding the use of sustainability information in risk management (*see Table 5 in Appendix*). This includes, but is not limited to, the need to consider ESG-related risk information to customer due diligence and monitoring, collateral valuations, and credit ratings and pricing. These requirements are detailed by both European banking supervisors and regulators, requiring advancements in data quality and granularity that will potentially leverage information disclosed via CSRD. Banks also have CSRD disclosure requirements, which intersect to broader requirements on the assessment of financial materiality of ESG-related risk drivers as part of the prudential regulatory framework. Banks require counterparty level information from corporates to meet these requirements, as well as for prudential risk management purposes under Capital Requirements Regulation (CRR) / Capital Requirements Directive (CRD) and finally to meet their own prudential transition plans requirements. Thus, non-financial corporates are encouraged to provide relevant and meaningful information in their disclosures to facilitate a more comparable data environment across banks. Finally, it should be noted that banks still have a regulatory responsibility to engage with clients to assess if their transition pathways are aligned with the EU's objectives, banks own committed portfolio trajectories, regulatory requirements on prudential transition plans, to be published by European Banking Authority (EBA) in the beginning of 2025 and if banks require support with their own transition plans and climate change mitigation goals.

2. Methodological approach

2.1. Initial scoping and definitions

Published in July 2023, and entering into force on 1 January 2024, the ESRS form part of the legislative framework for sustainability reporting in Europe. Under the ESRS, companies must provide comparable, reliable and assured (limited assurance and later reasonable assurance) information about their sustainability-related impacts, risks and opportunities for topics and sub-topics assessed as material, including entity specific topics. The ESRS contain detailed disclosure requirements, either mandatory or voluntary and allow for certain phasing-in of disclosures. The ESRS requirements apply to a broader set of companies than its predecessor the Non-Financial Reporting Directive (NFRD). They consist of two cross-cutting, sector agnostic standards (ESRS 1 and ESRS 2) and 10 topic-specific standards covering ESG-related topics that are still under development.



ESRS 1 ("General Requirements") sets out general rules for reporting in accordance with ESRS but does not specify any particular disclosures.



ESRS 2 ("General Disclosures") describes basic information that must be published regardless of the sustainability issue under consideration. ESRS 2 is mandatory for all companies that fall under the scope of the CSRD.

In this second phase of the of the DWS, initial scoping sought to prioritise CSRD data related topics the participating banks regarded as the most relevant and useful to focus on. The initial proposal was based on a scoping survey, where the 12 participating banks provided their preferences on the prioritisation of specific CSRD ESRS to ensure that the scope remains both useful and manageable within the timelines agreed. As a result, E1 – Climate Change and E4 – Biodiversity and Ecosystems were prioritised.

Illustration (Figure 1) below describes the overall guidance for the general requirements ESRS1 and general disclosures ESRS 2. Detailed and descriptive technical guidance for Climate Change (ESRS E1) and Biodiversity and Ecosystems (ESRS E4) is presented in the Appendix section (Table 4) of this report:

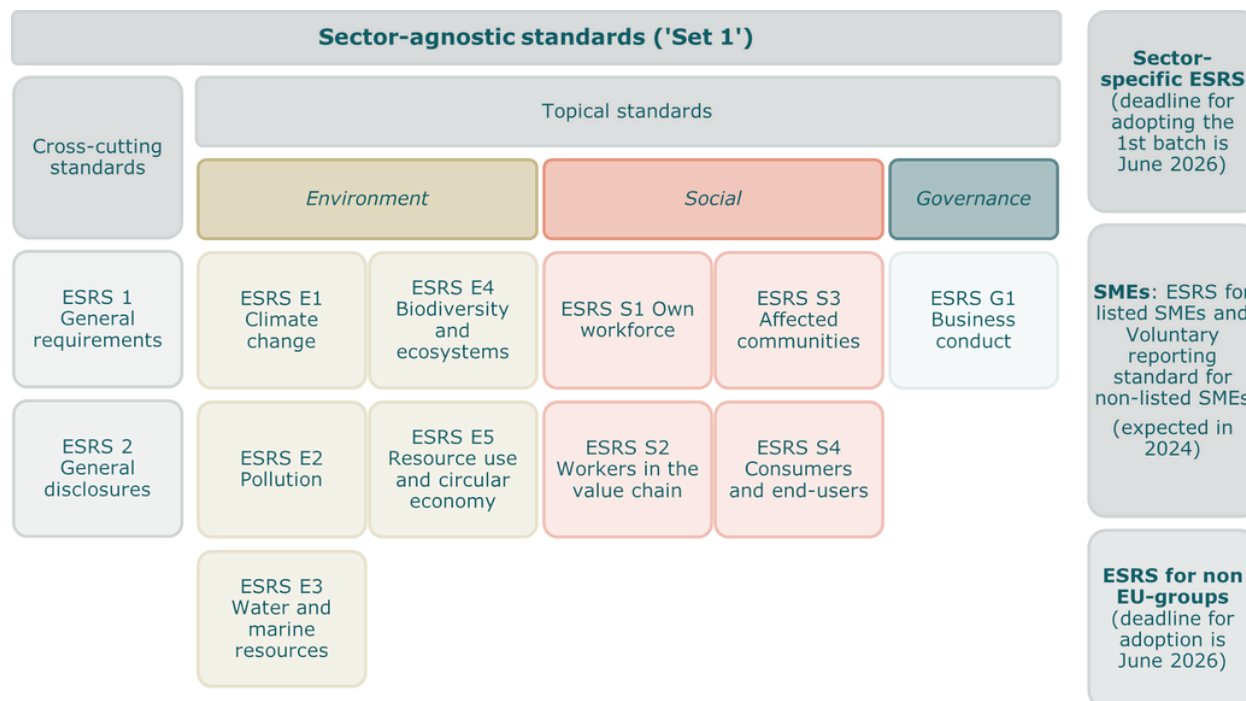


Figure 1. Structure of ESRS standards.[3]

ESRS E1 is considered as the most comprehensive and granular reporting standard amongst all the ESRS requirements. The ultimate goal of ESRS E1 is to present the progress on how business practices are aligned with Europe's climate objectives. Disclosures under ESRS E1 will enable banks to better understand how corporates impact climate change and the responsive actions they have taken to mitigate those impacts, which may then be followed up and complemented if key information gaps remain.

Corporates, including banks, have already made significant progress on disclosing metrics related to climate change, based for instance on the Financial Stability Board's (FSB) Task Force on Climate-Related Financial Disclosures (TCFD), the Sustainability Accounting Standards Board (SASB) and the Climate Disclosure Standards Board (CDSB). It is therefore assumed that disclosures as per ESRS E1 will be more mature than disclosures under ESRS E4.

[3] <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32022L2464>

2.2. Assessment framework

The DWS members were asked to assess and prioritize the disclosure requirements for banks' risk management purposes (disregarding the phase-in optionality for certain disclosures such as notably transition plans on Biodiversity & Ecosystems). Based on the result of the analysis, the following selected disclosures were seen by all banks as key information, whereas other disclosure requirements were deemed as useful by a subset of the participating banks. To distinguish between prioritised disclosure requirements and other useful but potentially not as critical disclosure requirements, the list of key disclosure requirements were categorized as either "primary", "secondary" or "tertiary"[4] from a banking risk management perspective. As the amount of information that corporates are required to disclose through the selected standards (covering both voluntary and mandatory) is very high, approximately 220 data points for E1 – Climate Change and 119 for E4 – Biodiversity and Ecosystems, and to create further transparency around use cases, the disclosures were assigned to four different "risk phases", which are detailed and defined in Table 1. This allow to further categorize these disclosure requirements and provide examples for each category, informing what type of information banks can utilize and what type of information would be beneficial in the future as data availability matures:

Name	Definition	Covered in E1	Covered in E4
<i>Summary of gross risk exposure</i>	Detailed disclosure of specific metrics associated with climate and biodiversity, such as emissions and individual geographical areas at risk, dependent on the business model and availability of such information. If these data points are not available, banks would potentially focus on the summative disclosures (i.e., what does the exposure to these areas at-risk mean for risks and opportunities).	Yes	Yes
<i>Risk assessment disclosure</i>	Disclosure on how the risk exposures have been assessed, as it remains relevant for banks to determine the meaningfulness of the assessment of the risks and the response by each counterparty.	Yes	Yes

[4] Definitions are presented in the Glossary section of this report

<i>Mitigation, response to risk / response to residual and natural mitigation</i>	Disclosure on how the counterparty mitigates the identified risks and the relevant transition plan features to do so, to identify the residual risk to be mitigated by the banks.	Yes	Yes
<i>Financial materiality (residual risk)</i>	Disclosure on the estimation of the financial impacts of the risk exposure, indicating net risk / residual of the natural mitigation activities taking place.	Yes	Yes

Table 1. Categories for disclosure requirement use-cases

As the purpose of this report is to initiate and facilitate a discussion on which disclosure requirements are potentially of use for banks in their risk management (e.g., credit risk), a general description of risk management practices is introduced. Banks typically identify, evaluate and assess their risks and associated risk drivers, consider actions to manage, respond to or mitigate the assessed risks, report and monitoring, and, where necessary, manage the residual risk exposure (e.g. via risk appetite limits or capitalisation). Note, that this is a generalised description that does not aim to describe any specific bank's practices, but rather the overarching framework. *Figure 2* below illustrates the key components of banks risk management, with a description of all associated steps:



Figure 2. General process description of (banks) risk management processes.

[4] Definitions are presented in the Glossary section of this report



Risk identification is generally understood as the process of defining the risks and their risk drivers (including ESG) for banks, across the prudential risk categories, including the origin and the reason why they pose a risk for banks. To ensure proper coverage of risk identification, the categories are often divided across the prudential risk types, e.g., credit risk, market risk, operational risk, reputational risk, liquidity risk and compliance risk. This categorization might differ across banks, but the general definitions remain the same.



Risk assessment step refers to overall risk analysis, typically consisted of the evaluations and analysis of the likelihood and severity of certain risks, or risk drivers, to which banks encounter. The purpose is to support banks in the prioritization of risks, based on the materiality of risks. The underlying assessments are categorized in similar fashion as the risk identification process, across different prudential risk categories, as the type of assessment required differs e.g., for credit risk and operational risks. A key component here is data applicability and availability, which is in the core of the work conducted within the DWS. Data plays a significant role in banks' ability to analyse and assess their risks, feeding directly into risk management processes, such as customer risk assessments, scenario analysis and stress testing.



Risk mitigation typically considers all policies and procedures established within banks to limit the risks of their activities. These policies are based on prudential regulation and subject to supervision. Mitigation can also be done through strategic choices, such as credit decision making through exclusions of certain industries.



Risk reporting & monitoring is considered an important component, as it is designed to gather and disseminate information on how a bank's risk management strategy and approach functions. The reporting which includes also documenting and reviewing the progress and effectiveness of the associated actions is important to track and monitor the overall risk profile of banks. Finally, the conducted monitoring and reporting allows banks to quantify developments within their portfolios, in alignment with any strategical decisions and portfolio steering.

This simple and consistent framework supported by the attribution of ESRS E1 and ESRS E4 disclosure requirements to one of the categories outlined in Table 1, enabling a use-case driven categorisation with concrete examples on how certain disclosure requirements can be applied within banks' own risk management processes, specifically focusing on the counterparty risk assessment.

The participating banks considered the disclosure requirements for E4 as somewhat less extensive, detailed and prescriptive compared to E1, and therefore outcomes for E4 are presented on a higher and more principle-based level in this report. The disclosure requirements for E1 consist of data points and information that are more mature (e.g., financed GHG emissions versus financed biodiversity loss impacts), and therefore can be presented in more detail than those for E4 – while still requiring further development across multiple metrics as described in the other reports of the C-ESG Risk RT[5].

Outcomes presented in the following chapter of this report are supported by the approach outlined in this section, with concrete examples on how these disclosures are potentially further utilized and what additional information could be of value. The more detailed data requirements for disclosure requirements are covered within Tables 3 and 4 in the Appendix section of this report, while Table 5 describes the specific risk management tools in a structured and concrete manner, including references to regulatory and supervisory requirements and guidance.

[5] <https://www.ebf.eu/uncategorized/ebf-set-up-a-high-level-environmental-social-and-governance-risk-roundtable-c-esg-risk-rt-with-13-european-banks/>

3. Outcomes

At a high-level, there is consensus amongst participating banks on which disclosure requirements are seen as potentially most useful and valuable for risk management purposes. This is presented through the previously mentioned data quality hierarchy. To ensure a sufficient level of granularity, the requirements are reflected through common counterparty risk assessments steps, across climate- and biodiversity & ecosystems-related disclosures. In addition, the outcomes include concrete use cases for the published information.

Assessment framework component		ESRS E1 Data requirement example			ESRS E4 Data requirement example ⁶		
Counterparty risk assessment step	Description ⁷	Primary data requirement	Secondary data requirement	Tertiary data requirement	Primary data requirement	Secondary data requirement	Tertiary data requirement
3.1 Assessment of the inherent risk	As part of a bank's credit processes, especially in the onboarding phase, banks should identify and effectively manage the inherent risks of the counterparty exposures. ECB Guide (2020) mentions scenario analysis and stress testing (expectation 11) as a key component, where climate- and biodiversity-related aspects should be incorporated through e.g., specific scenarios. The European Banking Authority guideline on Loan Origination and Monitoring (EBA LOM GL) Chapter 4.3 points out the need to specify requirements and procedures for the acceptance and use of collateral and credit risk mitigation measures, to minimize the inherent risks. Inherent risk assessment functions as mapping of the risk landscape for banks, by	E1-6: 44 – 44, 53, AR55 E1-9: 66a – 66b, 67a – 67c	E1-4: 81 E1-5: 37 – 43, E1-6: 47 – AR 46h, 55 E1-8: 63a – AR65	E1-5: AR38b E1-6: AR45d (6) E1-9: AR71b, AR74c - AR74e		SBM-3 16b IRO-1: 19 & 19a E4-5: 35	IRO-1: AR 8b & AR 8c E4-5: AR 27h

⁶ The references are towards EFRAG's detailed list of disclosure requirements in the following order: Subsequent disclosure requirement and the relevant paragraph.

⁷ Descriptions and definitions are taken from the EBA LOM GL: [EBA Guidelines on Loan Origination and Monitoring, 05/2020](#).

	addressing and estimating the overall materiality of banks operating environment.						
3.2 Risk mitigation actions	Mitigative actions within the Credit risk area are described as the tools necessary for banks to effectively manage the risks associated with their counterparties. As mentioned in the ECB Guide (2020), expectation towards effective risk migration covers risk appetite (expectations 4.1, 4.2) and through associated reporting and data governance (expectation 6.1) to name a few. To support their credit risk decision-making, banks can deploy a range of mitigation actions and tools. Effective risk mitigation practices can also be established by the counterparties themselves through policies, procedures and overall risk management practices, such as transition planning. Banks internal mitigation is established through concrete credit policies, continuous credit worthiness assessment, portfolio diversification and collateral management, such as loan-to-value ratios. Finally, the relationship between climate- and biodiversity-related expectations is expected by	E1-1: 14 – 17 E1-3: 28 – 29c iii E1-4: 32 – 34a + 34b, 34e – 34f E1-7: 58a-AR60, AR62a	62 E1-4: 34b, AR25a, AR25b E1-7: 56a – 58a, 58b – AR61, AR62b – AR 61c	E1-4: 34c	E4-1: 13a-13f		

	supervisory authorities, as mentioned in the ECB Guide (2020) ⁸ .						
3.3 Financial materiality of the residual	The concept of materiality is increasingly important and granular assessments and incorporation to risk management framework is required through the ECB Guide (2020) (expectation 7.2, 9.1, 13.1) across the prudential risk categories. Residual in the context of financial materiality relates to the remaining risk exposure and tail risks, after considering all mitigating actions and natural mitigation relative to the gross risk exposure. Residual tail risks can be very significant for counterparties such as highly leveraged institutions in which solvency, liquidity or both are closely dependent on overall portfolio performance. ⁹	E1-9: 66d, AR73a, 67d, 67e (1), AR76	E1-9: AR73b, 67e (2-7), 68a – 69b	E1-9: AR71b, AR76, AR76b	SBM-3: 48d E4-6: 45a-45c		E4-1: AR 1a-AR1k
3.4 Information on the methodology of the performed assessment	Banks have internal approaches to customer engagement, specific to each company but due diligence processes are often the starting point for such relationships, functioning as a critical component of counterparty risk management. The ECB Guide (2020) refers to the documentation of the assessments (expectation 1.1) in terms of	E1.SBM3-3: 18 – AR 11c E1.IRO-1: 20c – AR12b, AR12d	E1.IRO-1: AR11d – 21, AR12c, 21 - AR15 E1-2: 24, 25, 62 E1-4: AR30c		IRO-1: 17a, 17b and 17d	E4-5: 38	IRO-1: 18a-18c E4-5: AR 27a-AR 27j

⁸ ECB Guide on climate- and environmental risks (2020).

⁹ Basel Committee on Banking Supervision (BIS) Guidelines for counterparty credit risk management: <https://www.bis.org/bcbs/publ/d574.pdf>.

	the risk environment (business environment scanning) and within the strategic decisions (expectation 2.1). Aspects to consider at this step include, but are not limited to, understanding the level of risk for a counterparty and how these processes are operationalized.		E1-9: AR69a, AR72a,b				
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Table 2. Description of the applied framework, conclusions and concrete examples of primary, secondary and tertiary disclosure requirement.

3.1. Assessment of inherent risk

The assessment of inherent risks is considered an important aspect to manage risks associated with banks counterparties. It consists of the underlying level of risk that banks are willing to absorb by interacting with a certain corporate counterparty, without considering any risk mitigation controls. The inherent risk assessment addresses the first two elements of the general risk management process (*as described in Figure 2*), considering risk identification and risk assessment.

With regards to climate-related inherent risk assessments, banks need information on the associated transition and physical risk drivers^[10] that the corporate counterparty is exposed to, due to the nature of the associated operations and the locations of those operations. Considering this, the following disclosure requirements under ESRS E1 are identified as key to perform the inherent risk assessment of counterparties:



Inherent transition risks are assessed through emissions data, which means data on Scope 1, Scope 2, and Scope 3 emissions. Corporates should clearly state the coverage of the disclosed emissions, for example across scopes (1,2, and/or 3) covered and whether the quantification covers only carbon emissions or all greenhouse gas emissions.

By default, absolute emissions would be larger for larger companies. To allow banks to make a fair comparison between corporates, it is recommended to disclose data on the production, or output, associated with those emissions. With this information the physical emission intensities of the corporates can be calculated to allow for a comparison between companies of different sizes. In addition, banks are required to disclose the alignment (or misalignment) of their credit portfolios with decarbonization pathways. Data on corporation's production projection is required to calculate this alignment (or misalignment).

[10] Listed as one of ECB's Single Supervisory Mechanism (SSM) key priorities: "[Material exposures to physical- and transition risk drivers of climate change.](#)"

The inherent physical risk assessment requires information on the location of counterparties' assets. The ESRS E1 requires companies to disclose the locations of significant assets exposed to any material physical risks. Additional data on the definition of 'significant' and the importance of the asset to the counterparty, would allow banks to also understand the physical risk the corporate is exposed to. See Figure 3 below for examples of location data elements that would be beneficial for banks to receive, in order to perform this assessment. In addition, information on the extent to which corporates have performed physical risks assessments on their supply chain would be of great value. Information could include the location of key suppliers, or whether the counterparty has assessed the physical risk of the suppliers.

The information on location of significant assets should as far as possible include:

- The definition for 'significant'.
- The total number of assets and the number of significant assets which are disclosed on, for instance: 15 assets out of 40 are significant and will be disclosed on.

The below table provides an overview of the information on location data that would be beneficial to banks.

Asset/Site identifiers	Asset/Site ID	A unique asset ID
	Asset/Site name	Asset name for easy reference
	Property right	The property right, i.e. tenant, owner, partial owner
Ownership	Owned/leased	In indication if the site is owned or leased
Status	Planned/operational	In indication if production has commenced or is planned
Site locations	Country ISO	The country identifier as per ISO standards
	State or Province	The state or province of the asset
	City	The city of the asset
	Postal Code	The postal code of the asset
	Street address	The street address of the asset
	Building number	The building number
	Latitude	The latitude of the asset
Importance of asset/site	Longitude	The longitude of the asset
	Number of employees	The number of employees working at the site
	Asset value	The value of the asset expressed as a monetary value
	Asset value %	The value of the asset as a percentage of total asset values
	Asset production %	The production produced as a % of the corporate's total production
	Asset size (m ²)	The size (m2) of the asset
	Asset type	The asset type (or role). For instance: administrative, production, distribution, research & development

Other measures can also be considered to convey or describe the importance of each site.

Figure 3. Locations of significant assets

For biodiversity & ecosystem-related disclosures, obtained outcomes from the DWS indicate that there remains uncertainty around which disclosure requirements would be most useful for risk management purposes. This can be explained by the lower level of maturity of biodiversity-related risk understanding overall, compared to climate, as well as the lower maturity level of biodiversity-related datapoints that banks have been able to work with to-date. To-date there is no single metric endorsed by supervisors for assessing biodiversity impacts exist (such metrics would be e.g., the Mean Species Abundance (MSA) and the Potentially Disappeared Fraction of Species (PDF[12])), implying that corporates may report through a certain methodology, while banks may choose to report applying a different method. There is consensus within the DWS that biodiversity and ecosystem-related disclosure requirements around counterparty asset- or site-location are important for assessing the existing inherent risks. Quantitative information such as analysis on geography-level and assessments concluding on impact and sensitivity on biodiversity-related risk drivers are seen as informative and useful disclosed information to make an informed inherent risk assessment.

Banks consider it relevant and useful to understand whether any land use or site-specific locations have been identified as having a negative biodiversity-related impact or are highly dependent on certain ecosystem services. While some divergence in views regarding the relevance and value of specific qualitative disclosure requirements in relation to the assessment of inherent risk exists (at least for now), uncertainty around and a current lack of such information e.g., specific site-locations of counterparties and the biodiversity-related impacts of those, implies that banks are yet to test and assess the usability of such information as it becomes disclosed.

3.2. Risk mitigation actions

While the assessment of inherent risk is intended to provide the overall picture of the counterparty's risks, as an input for banks' own risk assessment, internal and external risk mitigations should be considered as a next step of the risk evaluation process. The mitigation actions aim to limit the associated risk exposure to an acceptable level, or to fully reduce the exposures considered at risk. Additionally for transition plans under the CSRD, banks own transition planning function as an aggregate of the plans from corporate counterparties. This information is considered as highly important, for both climate- (transition and physical) as well as biodiversity & ecosystems-related aspects.

[12] See e.g., https://www.financeforbiodiversity.org/wp-content/uploads/Finance-for-Biodiversity_Guide-on-biodiversity-measurement-approaches_3rd-edition-1.pdf

Through climate-related disclosures (ESRS E1) banks will obtain information on the actions corporates have taken to mitigate their physical and transition risks:



Having information available about the transition plans of counterparties is crucial for banks[13]. It is the biggest tool to evidence that elevated transition climate change risks are being mitigated. However, not all transition plans are equal, and banks will have to perform an assessment of the quality and credibility of the transition plans. Figure 4 provides additional information on what banks will be looking towards to inform the credibility of transition plan assessments. Banks are required to define their own transition plans. These overall plans from counterparties will form a large consideration when banks craft their own transition plans.



To mitigate physical climate risks, corporates have to develop and update business continuity plans (BCPs) and insurance arrangements where possible. For each significant asset identified in the previous section, corporates should also confirm that BCPs have been updated and that insurance coverage is in place.

In particular E1-1 requires corporates to disclose a detailed transition plan for climate change mitigation. ESRS E1 defines a 'Transition plan for climate change mitigation' as "An aspect of the undertaking's overall strategy that lays out the entity's targets and actions for its transition towards a lower-carbon economy, including actions such as reducing its GHG emissions and with the objective of limiting climate change to 1.5°C and climate neutrality."

Several frameworks and standards have been developed to support corporates with the development of credible transition plans. These include for instance:

- The World Benchmarking Alliance 'Assessing the credibility of a company's transition plan: framework and guidance'
- The Transition Plan Taskforce (TPT) which has developed a Disclosure Framework with additional guidance for some sectors.
- The Network for Greening the Financial System (NGFS) Transition Plan Package.

From these frameworks a few key transition plan data elements have been identified that should be disclosed by corporates for banks to assess the credibility of the transition plan:

- Established science-based GHG emissions reduction targets.

[13] Transition plans are also a required to be collected by EBA as introduced within [the Draft Guidelines on the management of ESG risks \(2024\)](#), which is to be finalized by end of 2024.

- Identified and implemented decarbonization levers with quantifiable reduction goals.
- Secured investment and funding needed to support the roll out of the transition plans.
- Assessed any locked in GHG emissions.
- Embedded the transition plan in the overall business strategy and financial planning of the institution.
- Obtained approval from the Board.
- Aligned the plan with climate risk management and integrating into the governance framework.

The DWS discussions included the importance of having quantified data to support risk management analysis. This thinking also extends to transition plans, that is, having quantified or structured data as far as possible. To support corporates in how they can structure their data on transition plans an example is provided for a company in the cement industry. Two important concepts are addressed in the example:

- A. Data provided on actions taken/planned should be structured in alignment with the pathways and actions from standard setters. In the case of cement companies, these are for instance pathways and actions from the International Energy Agency (IEA), the Global Cement and Concrete Association (GCCA), or the European Cement Association (CEMBUREAU).
- B. Banks will be looking towards the above standard setters to assess if the actions provided by corporates in their transition plans are complete. However, companies might have very valid reasons for not implementing some of those actions. For instance, certain technologies such as green hydrogen are not feasible or viable in certain geographies. Companies should clearly state which impediments and challenges they are facing to implement the actions outlined by the standard setter.

With the above in mind, the following two tables are provided as examples of quantitative and structured transition plan reporting.

Table 1: Summarised actions and impediments

Firstly, state which international body the actions are aligned to. In the example the actions are aligned to those defined in the net-zero roadmap of the GCCA. For each action from the GCCA state what the company has undertaken and which actions are not viable. Apart from the summarised actions and impediments, companies should provide further detail and rationale of their actions within their narrative disclosures.

	Actions	Impediments
Savings in clinker production including alternative fuels	Reducing conventional fuel use through the consideration of biomass	Use of green hydrogen is not currently feasible
Savings in cement and binders	Optimizing thermal efficiency Improving the clinker ratio is a key action that the company is currently prioritizing by using byproducts from other industries like fly ash. Increase use of decarbonated raw material	
Efficiency in concrete production		
Carbon capture and utilization/storage		Although significant investments have been made versus CCUS, it is not currently a viable short-term decarbonization lever.
Decarbonization of electricity	Increase the share of non-renewable electricity sources	
Efficient in design and construction		
Recarbonisation		

Table 2: Actions and investment

For the actions taken and planned, corporates should state how much each action is contributing to meeting the company's net-zero targets and how much investment has and will be made towards each action.

	Base year 2020	2030	2050	Current Capex €m	Current Opex €m	Planned Capex €m	Planned Opex €m
Total emissions (CO2e million ton)							
reduction aligned to SBTi 1.5 Degree scenario	620	480	20				
Total CO2e reduction from base year		23%	97%				
Locked in GHG (CO2e million ton)			20				
Clinker to cement ratio	0.65	0.62	0.55				
Electricity intensity (Gj/t clinker)	3.5	3.4	3.1				
Electricity intensity (kWh/t cement)	95	85	75				
Thermal energy mix (fossil fuel share)	94%	85%	70%				
Total cement production (million ton)	8	8.5	9.3				
CO2e savings through actions identified in the GCCA							
Savings in clinker production including alternative fuels		43%	11%	€ 5m	€ 2m		
Savings in cement and binders		40%	9%	€ 6m	€ 2.5m		
Efficiency in concrete production			11%				
Carbon capture and utilization/storage			36%			€ 12m	
Decarbonization of electricity		10%	5%				
Efficient in design and construction			22%				
Recarbonisation		7%	6%				

Additional information that would be of interest is the counterparty's participation in collaborative forums to:

- agree definitions for low and near-zero emission cement and concrete by the mid-2020s, as well as guidelines for the efficient use and reuse of building material.
- co-ordinate and scale up early efforts to create a market for near-zero emission cement, including via high-quality, multi-year purchase commitments and/or policy support.
- accelerate the pace of learning between a wider set of countries, with a particular focus on developing countries.

Figure 4. Important features listed for transition planning

In the context of biodiversity & ecosystem-related disclosures, risk mitigation measures include actions undertaken by counterparties to avoid, minimize, remediate and offset[14] their negative and increase their positive impact towards the surrounding nature. Counterparty level mitigation can be driven by increasingly stringent regulation (external mitigation) or internal mitigation via biodiversity and ecosystem related transition plans. External mitigation, often cited as natural mitigation, are the considerations and on-going efforts that counterparties and governments partake in, by actively lessening the impact of their operations on the natural environment they operate in. This type of mitigating action can to an extent occur naturally, where counterparties operations or activities are assessed not to have a significant biodiversity-related negative impact. In some instances, there may exist an increasing risk caused by counterparties, where the associated risks may be lessened through on-going risk mitigation. For example, companies facilities are located in areas of increased natural hazards, but specific actions are established to ensure functioning processes and safety guidance in the occurrence of such incidents. Internal mitigation tools are available for counterparties operating in various industries, where e.g., transition plans are established to align on activities with local or global ambitions to achieve a sustainable society. A wide range of steps and tools for counterparties to establish viable transition plans exist, such as:

- Board level oversight and incentives attached as part of climate performance indicators (e.g., established remuneration practices),
- Detailed descriptions of the applied analysis, e.g., scenario analysis and the relevant materiality thresholds applied,
- Risks and opportunities identification process and how these components are linked with the counterparties' overall strategic goals,
- Emission reduction targets and how they are measured (absolute/intensity) and possible net-zero targets e.g., through reflections across industry peers, as well as targets to reduce the negative biodiversity impact or achieve positive impact on ecosystems

- Comprehensive value chain emissions accounting, e.g., coverage of Scope 1,2 and 3 emissions with external verification, or for the aspect of biodiversity and ecosystems the establishment metrics for impact and dependency, and;
- Policy and value chain engagement, any ambitions across public policies and details of low-carbon products and services

The availability of the above information functions as a risk mitigation action for banks', that are considering these plans within the customer on-boarding phase. While biodiversity and ecosystem-related risk estimation and management descriptions are under development, and perhaps most mature for primary sectors within agriculture and forestry, this is an area with a higher degree of geographical localisation and development needs for comparable metrics – here, ideally banks would benefit from standardized assessment approaches. This would allow for better comparability of industries, corporates and knowledge sharing across different industries and significantly enhance the usability of such datapoints. This is supported by the outcomes received from participating banks, indicating that especially detailed information on assessments, such as scenario analysis, would be of importance. These include disclosure requirements on key assumptions made within the assessment process, the applied time horizons used within the analysis, involvement of the stakeholders identified as relevant, and the outcomes of resilience analysis. To note, banks did raise some concerns on key methodological terminology, such as the application and definition of 'resilience' or on the aspect of 'systemic' risk. A standardized approach for such terminology across corporates and industries would be of benefit for banks, as this terminology is applied and received through CSRD disclosures. To conclude for risk mitigation actions, many of the identified requirements are narrative-based, rather than quantitative datapoints, highlighting the importance of common and standardized methodologies to increase comparability.

3.3. Financial materiality of the residual risk

Once the assessment of counterparties' risk profile (including the estimation of the inherent risk net of all associated mitigation actions) has been completed, there is a possibility of residual risk remaining. The remaining part of the risk could be covered for instance via risk appetite, and potentially further through capital allocation. To further assess these options, banks' should be aware of the materiality of the remaining residual and the likely time horizon for materialization. The purpose for this assessment is to understand if the remaining residual is material, typically in the context of a banks overall risk capacity and risks to capital as assessed within the Internal Capital Adequacy Assessment Process (ICAAP). Banks would benefit of corporate counterparties completing the assessment themselves, where findings could be further leveraged and/or examined by banks as recipients of this information.

Information from climate-related disclosures that would be useful to understand the potential financial impact on corporates include at least the following:

- Revenue at risk of both physical and transition climate change risk
- Increase in costs due to physical and/or transition climate change risks
- The potential of stranded assets where specific information is provided on the value and location of the assets.

Within the C-ESG Risk RT there has been significant efforts to assess and harmonize the aspect of materiality for climate-related disclosures. Coherence and standardization of scenario analysis is seen as a key contributor, where relevant analysis for risk materiality (considering also the residual) entails prioritization of data sourcing and operational insertion.

For biodiversity and ecosystem-related disclosures, requirements around the information for assessing financial materiality or the remaining residual risks remain rather scarce. However, requirements which are evaluated as doing so, contained a strong consensus of what participating banks are expecting. First, banks agree that information pertaining to biodiversity and ecosystems related impact, risk and opportunity on the counterparty's current financial position, financial performance and cash flows for that specific reporting period are important for assessing the materiality. Supported by the requirements around financial performance, banks see the quantification of the anticipated financial effects as equally important before considering any mitigative actions. If not available, a qualitative estimation of equal granularity is seen as beneficial. Further disclosure requirements endorsed by participating banks are related to impact and dependency assessment, with detailed considerations of the associated time-horizons applied within the assessment.

Finally, all of the critical assumptions applied to quantify the above effects, as well as the sources for information applied within the estimation are seen as useful for banks. As the analysis across the industry for biodiversity- and ecosystem-related disclosures and assessments require further maturation, the details of already existing assessments remain highly important, such as guidance from Network for Greening the Financial System (NGFS)[16] and Taskforce on Nature-related Financial Disclosures (TNFD)[17]. For example, banks would expect disclosing corporates to further inform about the remaining uncertainty within the conducted analysis and assessment.

3.4. How has the assessment been performed

From a transparency perspective, banks would benefit from having more information available on how corporates complete and approach assessing their risks, since this information is used by banks to perform their own assessment of the risks (e.g., credit or to capital). This will improve and allow for comparison of the underlying processes and actions across the industry. Simultaneously, banks face the same challenge as corporates establishing these assessments for the first time, as this information has not been previously available. The emphasis should be on transparency, which ultimately should enhance the ability to further develop these methodologies and the underlying assumptions. The overall quality of the assessment are ultimately determined on the associated granularity, where the existing data gaps are replaced by banks themselves.

Companies should provide information on how they have assessed their exposure to climate-related risks and the associated resilience also given the different possible scenarios that may occur. Scenario analysis is considered as an important tool to test corporate resilience against climate-related drivers of risk, thus providing management with foresight on possible emerging future risks. When disclosing information on the conducted scenario analysis, corporates should include information on:

- The scenarios used and why these scenarios were chosen (sources).
- How the set of scenarios cover various transition and physical risk pathways.
- Time horizons considered within the assessment.
- Which physical risk events (climate hazards) and transition risk drivers were considered in the assessment

[15] [Conceptual framework by Central Banks and Supervisors, 07/2024](#) & [Nature-related litigation; trends and lessons learned, 06/2024.](#)

[16] [Recommendations on nature-related financial disclosures, 09/2023.](#)

- The outcome of the scenario analysis, in particular the vulnerabilities (and if possible, materiality) identified as a result of the assessment.
- Finally, an additional data element to consider is the list (or menu) of possible management actions that are available to the counterparty in the event that a scenario should materialise, evidencing how corporates are preparing for potential unexpected events.

For biodiversity & ecosystem-related disclosures, there exists a clear consensus among DWS participants on certain requirements which are seen as valuable for the purpose of the risk assessments. These requirements are first and foremost narrative based, with emphasis on the corporates identification and assessment of the total value chain, including the actual and potential impacts, and the overall dependencies. The assessment should identify any biodiversity-related actual and potential impacts on either owned or managed site locations. Those impacts should be considered from a value chain perspective, where at least the following primary activities should be considered:

- Impact analysis on inbound and outbound logistics, what metrics are considered in the biodiversity-related impact analysis and how these are managed,
- Within own operations, whether there any activities that are seen to have either a negative (impact) or a positive (opportunity) biodiversity-related financial effect, and;
- What is considered within assessing impacts and/or opportunities within marketing, sales and provided services, and the key metrics applied.

For some very granular voluntary disclosure requirements, there remains uncertainty on the applicability, but at least the following areas are seen as likely to be of use for banks, while collecting this information:

- The methodology and overall consideration/selection of certain scenarios; why those scenarios were selected and the rationale for the application,
- How the selected scenarios will be applied and updated in the future, when available information evolves (e.g., emerging trends),
- The overall scope and coverage of the analysis, explaining how much of the risk exposure has been assessed and which geographies have been included within the assessment, and;
- Whether the metric selection follows regulatory guidance, including details on which authorities require the assessment, e.g., national or EU-level legislation.

3.5. Data limitations and identified challenges

For both climate- and biodiversity & ecosystem-related metrics and datapoints, participating banks share a common view that ESRS contain information highly valuable from a risk management perspective and that some data points are remain more valuable than others (e.g. as outlined in *Table 2*). However, banks do note that in comparison to climate-related information, significant gaps in the maturity of the available information for biodiversity & ecosystem-related metrics currently exist, thus potentially limiting the applicability of these datapoints in decision-making, e.g., how to apply the disclosed biodiversity and ecosystem-related information in customer credit assessments. Though, notably there are also gaps for climate-related metrics, e.g., on physical hazard-level data as described within the final report from the C-ESG RT Physical Risk Workstream[17] and these data-related challenges require further development on from disclosing corporates across industries, as well as within banks further applying these metrics within internal processes. This view is expected to change and evolve in the future as banks begin to have this information available through counterparty disclosures and as the disclosures are expected to be enhanced in quantity and granularity, increasing the opportunities for banks to further aggregate and better utilize this information. Banks and corporates face similar challenges in responding to increasing requirements through their disclosures, but it should be noted that it is a learning journey, where development and increased granularity has already been reached in the recent years, e.g., through increased granularity of climate-related disclosures.

Through the work completed within the DWS, some particular data availability challenges were raised by multiple banks. First, it is expected that climate-related metrics and datapoints are maturing across industries, likely resulting in better data availability, granularity and quality in relation to biodiversity-related information. Second, only corporates who classify climate- and biodiversity-related topics as a material risk driver are requested to disclose this information through CSRD. As the maturity and availability of these datapoints remain limited, the expectations towards the availability of voluntary disclosures on this front remain low to-date. Third, the disclosure requirements are subject to certain companies, e.g., corporates of certain size operating within the European Union (EU) creating a significant challenge for banks whose portfolios are consisted of corporations operating globally.

[17] As described within [the final report \(09/2024\)](#): Hazard-level data remains a challenge e.g., due to variance in vendor-specific data, categorization of physical hazards and hazard selection

To highlight, participating banks see that there is a risk that the CSRD will not overall increase the amount of available information, depending on the geographical composition of portfolios. Fourth and finally, the DWS participants agree that there exists specific sectoral requirements when disclosing climate-related information (for instance specific sectoral considerations in transition plans) however, there are currently no specific sectoral requirements for the biodiversity-related disclosures. The approach of assessing and evaluating any sector-specific requirements was discussed throughout the DWS, resulting in agreement across all participants that both, climate- and biodiversity-related disclosure requirements remain generally sector-agnostic, at least for now. This may see some further development in the near future, in relation to the work carried out by EFRAG[18], in designing sector-specific ESRS as part of their mandate. However, as this work is still on-going and is expected to run as a multi-year exercise the effect towards banks' ability to utilize this information is yet to be determined.

Participants were of the opinion that any quantitative, numeric and structured data is preferred over narrative or semi-narrative information as it would allow for comparisons across corporates and for banks to perform their own risk assessments on corporates. In alignment with the CSRD requirements, the assessed reporting standards contain information which the disclosing corporates must consider as mandatory or voluntary to disclose. For the biodiversity & ecosystems disclosures, the vast majority of the voluntary requirements are identified as key for banks to apply within their risk management processes. The outcomes of the assessment also indicate, that the required information for banks' risk assessment is often built from multiple different metrics supporting each other further complicating their direct utilisation. Thus, while narrative and semi-narrative data types are seen as most practical for banks overall processes for now, there is a significantly larger share of such data types, e.g., in comparison to quantitative metrics, further compounding the challenges of combining the data types.

As one of the goals of the DWS is to enhance the understanding of data-related challenges across corporates operating in different industries, one of the key aspects to highlight is the definitions and application of unified methodologies. Especially in an environment where data availability is scarce and methodologies remain to be developed and tested to some degree, banks face challenges in the application of these metrics. These methodological uncertainties are seen as natural, as many industries and corporates are still developing their disclosure practices and methodologies. Especially within this context, certain definitions evident within the application/disclosure requirements, such as resilience and systemic risks require further clarification.

[18] [Sector specific ESRS introduction, and the development process.](#)



4. Conclusion

As a conclusion for the 2nd cycle of the DWS, participating banks see a great opportunity to receive and analyse more information from corporates through CSRD, but the phase-in period will likely require more time and significant efforts to be able to fully apply the information for banks (risk management) processes. Maturity across the assessed metrics will likely increase in the future, and in areas where data-related gaps are more significant, progress should be evident. As information around areas with enhanced maturity, e.g., some areas of climate-related exposures, information gaps should diminish through more detailed disclosure requirements. For now, CSRD will not fix all data-related challenges, but it is likely that it will support banks and disclosing corporates across industries, within their sustainability journey.

Nordea as the chair of the DWS would like to thank ECB, EBF and all participating banks for great collaboration throughout the working group.

5. Glossary

Term	Definition
<i>Abbreviations</i>	
CSRD	Corporate Sustainability Reporting Directive
ECB	European Central Bank
EBA	European Banking Authority
EU	European Union
EBF	European Banking Federation
ESRS	European Sustainability Reporting Standard(s)
<i>Definitions for report purposes</i>	
Primary data requirement	Datapoints & metrics received through counterparty CSRD disclosures identified as most relevant for banks to apply within risk management processes, such as customer credit risk assessments, transition plans and scenario analysis & stress testing.
Secondary data requirement	Datapoints & metrics received through counterparty CSRD disclosures identified to be relevant, but not the most important metrics for banks to apply within risk management processes, such as customer credit risk assessments, transition plans and scenario analysis & stress testing.
Tertiary data requirement	Datapoints & metrics received through counterparty CSRD disclosures identified to be useful but would be complementary information for banks to apply within risk management processes, such as customer credit risk assessments, transition plans and scenario analysis & stress testing.

6. Appendix

Cross-cutting standards				
ESRS 1: Overarching principles		ESRS 2: General information		
Environment				
ESRS E1: Climate Change	ESRS E2: Environmental pollution	ESRS E3: Water / Marine pollution	ESRS E4: Biodiversity and Ecosystems	ESRS E5: Resource use and Circular economy
Social				
ESRS S1: Own workforce	ESRS S2: Employees in the supply chain	ESRS S3: Affected communities	ESRS S4: Consumers and end users	
Governance				
ESRS G1: Business practice				

Table 3. Illustration of the CSRD and ESRS Reporting Standard structure

Standard	Description ¹⁹
ESRS E1: Climate Change	The objective of this Standard is to specify Disclosure Requirements which will enable users of sustainability statements to understand: (a) how the undertaking affects climate change, in terms of material positive and negative actual and potential impacts; (b) the undertaking's past, current, and future mitigation efforts in line with the Paris Agreement (or an updated international agreement on climate change) and compatible with limiting global warming to 1.5°C; (c) the plans and capacity of the undertaking to adapt its strategy and business model, in line with the transition to a sustainable economy and to contribute to limiting global warming to 1.5°C;

¹⁹ [ESRS E1 Climate Change – detailed requirements and descriptions.](#)

	(d) any other actions taken by the undertaking, and the result of such actions to prevent, mitigate or remediate actual or potential negative impacts, and to address risks and opportunities; (e) the nature, type and extent of the undertaking's material risks and opportunities arising from the undertaking's impacts and dependencies on climate change, and how the undertaking manages them; and (f) the financial effects on the undertaking over the short-, medium- and long-term of risks and opportunities arising from the undertaking's impacts and dependencies on climate change.
ESRS E4: Biodiversity and Ecosystems	The objective of this Standard is to specify Disclosure Requirements which will enable users of the sustainability statement to understand: (a) how the undertaking affects biodiversity and ecosystems, in terms of material positive and negative, actual and potential impacts, including the extent to which it contributes to the drivers of biodiversity and ecosystem loss and degradation; (b) any actions taken, and the result of such actions, to prevent or mitigate material negative actual or potential impacts and to protect and restore biodiversity and ecosystems, and to address risks and opportunities; and (c) the plans and capacity of the undertaking to adapt its strategy and business model in line with: i. respecting planetary boundaries related to biosphere integrity and land system change; ii. the vision of the Kunming-Montreal Global Biodiversity Framework and its relevant goals and targets; iii. relevant aspects of the EU Biodiversity Strategy for 2030¹; iv. Directive 2009/147/EC of the European Parliament and of the Council and Council Directive 92/43/EEC (EU Birds and Habitats Directives); and v. Directive 2008/56/EC of the European Parliament and of the Council (Marine Strategy Framework Directive); (d) the nature, type and extent of the undertaking's material risks, dependencies and opportunities related to biodiversity and ecosystems, and how the undertaking manages them; and (e) the financial effects on the undertaking over the short-, medium- and long-term of material risks and opportunities arising from the undertaking's impacts and dependencies on biodiversity and ecosystems.

Table 4. Definition and description of selected Standards (E1 & E4) in scope for the DWS

Risk management category	Definition of category
Customer risk & due diligence assessment	A customer risk and due diligence assessment from a ESG-perspective involves identifying the potential environmental, social, and governance risks and/or drivers of risk which may impact an organization. The assessment should include at least evaluating the likelihood of these risks occurring and their potential impact, followed by documenting and deciding on mitigative actions to manage these risks effectively. Effectively managed risk assessment processes, incorporating ESG-related components, is an effective tool for all banks risk management and mitigation.
Stress testing	The ECB Guide (2020) ²⁰ expects that as part of the Internal Capital Adequacy Assessment Process (ICAAP) institutions are expected to conduct a tailored and in-depth review of their vulnerabilities through stress testing. The stress scenarios should comprise all material risks that may deplete internal capital or impact regulatory capital ratios and be used as part of the institution's stress-testing in both the economic and normative perspective. At least the following should be considered for stress testing and scenario analysis: How the institution might be affected by physical risk and transition risk, how climate-related and environmental risks might evolve under various scenarios, taking into account that these risks may not be fully reflected in historical data, and finally how climate-related and environmental risks might materialize in the short, medium and long-term depending on the scenarios considered.
Scenario analysis	
Risk appetite	As part of prudent risk management practices, banks are expected to ensure that risks driven by ESG-related factors are adequately mitigated. By integrating climate-related and environmental risks into the respective Risk Appetite Framework (RAF) increases institutions' resilience to such risks and improves their ability to manage those risks, for example, by setting limits on lending to sectors and geographies that are highly exposed to climate-related or environmental risks.
Monitoring and reporting	The EBA Guidelines on Internal Governance (2021) ²¹ set out requirements on how institutions should establish regular and transparent reporting mechanisms so that the management body, its risk committee, where established, and all relevant units in an institution are provided with reports in a timely, accurate, concise, clear and meaningful manner and can share relevant information on the identification, measurement or assessment, monitoring and management of risks. Consequently, the ECB expects institutions to integrate climate-related and environmental risks into their data reporting frameworks with a view to informing decision-making at management level.
Materiality assessment	As set out in the EBA Guidelines, institutions should identify, assess and monitor the business environment in which they operate, as it provides essential input for the assessment of the risks and developments that may affect the institution.

²⁰ [ECB Guide on climate- and environmental-related risks, 11/2020.](#)

²¹ [EBA Final Guideline on internal governance under CRD, 07/2021.](#)

	Institutions are required to document material factors impacting their business environment. The business environment captures a broad range of external factors and trends that shape the business conditions in which an institution operates or is likely to operate based on its main or material geographic and business exposures. These include macroeconomic variables, the competitive landscape, policy and regulation, technology, societal/demographic developments, and geopolitical trends. Climate-related and environmental risks may affect all of these areas.
Transition plan (mitigation plan)	Identifying an organization's risks, goals and actions related to its transition towards a lower carbon economy is typically captured in one key strategic element: a climate transition plan. While both awareness of the issue and regulatory and stakeholder expectations are still evolving rapidly, it is important for banks to acknowledge how customers are planning to drive their operations towards more sustainable economy.

Table 5. Risk management process categories and the relative definition

Issuing Institution	Documentation	Key information
European Central Bank (ECB)	Guide on climate-related and environmental risks	Sets out the expectations of the ECB for management of climate-related and other environmental risks within the current regulatory framework.
	ECB Guide to internal models (EGIM)	Sets out the ECB expectations on internal models, including on how climate and environmental risks should be considered.
European Banking Authority (EBA)	Draft Guidelines on the management of ESG risks	Sets out the minimum standards and reference methodologies for the identification, measurement, management and monitoring of Environmental, Social and Governance (ESG) risks by institutions. Final GL expected to be published by end 2024.
	EBA Report on the role of environmental risks in the prudential framework	The report proposes targeted enhancements to the current Pillar 1 framework, which can be implemented in the short term. In addition, the report proposes medium- to long-term actions, including more comprehensive revisions to the prudential framework that could be considered.
	ITS on Pillar 3 disclosures on ESG risks	Puts forward comparable disclosures to show how climate change may exacerbate other risks within institutions' balance sheets, how institutions are mitigating those risks, and their ratios.

	Guidelines on loan origination and monitoring	Specifies the internal governance arrangements for granting and monitoring of credit facilities throughout their lifecycle, including for ESG-related risks and sustainable lending policies and procedures.
	Guidelines on internal governance	Specifies the internal governance arrangements for ESG-related risks management, including requirements for the risk management framework integration.
European Parliament, the Council and the Commission	Sustainable Finance Disclosure Regulation	Sets out the regulatory requirements for disclosures to end investors on the integration of sustainability risks, on the consideration of adverse sustainability impacts, and on sustainable investment objectives / on the promotion of environmental or social characteristics in investment decision-making and in advisory processes.
	Disclosures Delegated Act	Complements the SFRD by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a.
	EU Taxonomy Regulation for sustainable activities	Sets the framework for determining environmentally sustainable economic activities.
	EU Commission Delegated Regulation on technical screening criteria for climate mitigation & adaptation in Taxonomy Regulation for sustainable activities	Sets the technical screening criteria for determining whether an economic activity qualifies as substantially contributing to climate change mitigation or adaptation and whether that economic activity causes significant harm to other environmental objectives. The EU Commission has published additional technical screening criteria to expand the coverage of economic activities.
	EU Commission Delegated Regulation on technical screening criteria for the sustainable use and protection of water and marine resources, to the transition to a circular economy, to pollution prevention and control, or to the protection and restoration of biodiversity and ecosystems	Sets the technical screening criteria for determining whether an economic activity qualifies as substantially contributing to the sustainable use and protection of water and marine resources, to the transition to a circular economy, to pollution prevention and control, or to the protection and restoration of biodiversity and ecosystems, and whether that economic activity causes significant harm to any of the other environmental objectives.

	Complementary Climate Delegated Act	Introduces conditions under which specific nuclear and gas energy activities can be considered environmentally sustainable activities.
	Corporate Sustainability Reporting Directive (CSRD)	Sets the requirement that companies will have to report on how their business model affects their sustainability, and on how external sustainability factors (such as climate change or human right issues) influence their activities. Commission delegated regulation on European Sustainability Reporting Standards (ESRS) was published in July 2023.
	Proposal for Corporate Sustainability Due Diligence Directive (CS3D)	The aim of the Directive is to foster sustainable and responsible corporate behavior and to anchor human rights and environmental considerations in companies' operations and corporate governance by requiring the businesses to address adverse impacts of their actions, including in their value chains inside and outside Europe. As of Q1/24, the current negotiations would suggest that for financial companies, only own operations and upstream operations would be in scope, with downstream (clients) to be considered in a report to be published two years after entry into force.
	Norwegian Transparency Act	Norwegian implementation of the EU Corporate Sustainability Due Diligence Directive. Promotes corporates' respect for fundamental human rights and decent working conditions. The law requires companies to conduct regular due diligence and publish the findings on their own operations and their own value chains to ensure that these rights are respected.

Table 6. European regulatory and supervisory ESG-related policy framework