

# **Report of the C-ESG Risk Roundtable Data Workstream**

**November  
2023**



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# Introduction

Sustainable finance 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. Management of financial risks will be a key element of the transformation of the EU economy to reach net zero targets.

Banks as well as supervisors recognize that environmental factors could be a source of financial risk, thus it is essential to step up efforts to ensure that such risks are properly identified, understood, measured, managed, and supervised. To achieve this, banks are in the process of revisiting their internal systems, models, and processes, particularly those related to data collection, risk management and credit approval processes. As the risk profile of banks' portfolios are reflective of those of their clients, to mitigate the risk, banks are also rapidly deepening engagement with clients 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 will benefit from collaborative approaches and collective solutions and discussions between banks and supervisors.

To further strengthen the dialogue within the banking sector and to facilitate the discussion with the European Central Bank (ECB), a high level Environmental, Social, and Governance Risk Roundtable (C-ESG Risk RT) was set up by the European Banking Federation under the existing CEO RT, with the participation of 13 European banks, and the EBF and the ECB as observers.

The C-ESG RT is focusing on climate risks with the objective to discuss current practices, identify gaps and promote pragmatic and practical approaches, including interim solutions, that will be shared with the entire banking industry to support and facilitate their implementation efforts and enhance harmonization where relevant and possible. In its inaugurating meeting in February 2023, the C-ESG Risk RT identified four initial areas to work on in the following workstreams:

- Data Workstream
- Scenario analysis – ICAAP – Risk materiality Workstream
- Physical Risk Workstream
- Collateral Workstream

The results of the Workstreams' (WS) deliberations will be presented publicly via a series of EBF webinars and will be available on the EBF website in the format of four thematic papers published between Q4 2023 and Q1 2024. The views in these papers will be reflecting the discussions of the WS members (contributors) and any suggestions in these publications will be of a voluntary nature. The sole purpose of the initiative is to identify existing gaps and approaches shared by the WS members and share such experience and knowledge to increase the level of collective awareness and deepen future dialogues on these topics that are expected to further evolve over the time.

# OBJECTIVE AND SCOPE OF THIS REPORT

This report is a result of joint work of the WS members facilitated by Nordea Bank Abp in its role as Data WS (DWS) chair. The scope of the C-ESG RT in this phase of collaboration was to identify commonly applied practices for addressing data and methodological uncertainties associated with disclosures against the Implementing Technical Standards (ITS) on prudential disclosures ESG risks. Identifying practices across a selection of banks aimed at facilitating more transparent cross-bank disclosures by industry, and in doing so mitigate a lack of comparability and/or potential greenwashing for the uncertainties in scope. Specifically, the DWS participants sought to achieve this objective, under the ITS on the Pillar III disclosures on ESG-related risks, through a series of targeted suggestions.

The targeted suggestions presented in this report are on a metric-specific level, with the following four metrics of the ITS on Pillar III disclosures on ESG-related risks in the scope:



**Financed emissions**

**Physical Hazard Exposures**

**Green Asset Ratio (GAR)**

**Top 20-carbon intensive firms**

# Key conclusions

Supported by the findings and observations received through the consolidated results of the DWS, it is important to emphasize that the starting point for all banks seeking to disclose against these and other relevant ESG-related metrics is a low-quality data environment, often mixed with fragmented (e.g., a mix of voluntary commitments and regulatory requirements) or limited methodological guidance.

As banks seek to quantify their exposures for each metric under such uncertainties, the development of disclosure practices remains challenging compounded by limited comparability, impacting risk management, and potentially greenwashing perceptions for internal data or methodological choices.

Despite the observed challenges, participating banks in the DWS were relatively well-aligned in terms of their approaches to the identified challenges to their respective Pillar III disclosures. Metric specific maturity varies across the industry, which can be explained by the various regulatory disclosure timelines.

As the common practices for all metrics become more established, progress across financial institutions' disclosures will become inevitable. Banks also believe that methodological guidance may be further developed, focusing on the areas of uncertainty presented in this report.

The matrix below provides a cross-metric comparison according to the scope of this report, including estimates for levels of uncertainty within data and methodological challenges, plans for data quality enhancements at a European level, and relevant ITS Pillar III disclosure

**See table on the next page.**

| METRIC                       | DATA UNCERTAINTY | METHODOLOGICAL UNCERTAINTY | EUROPEAN QUALITY ENHANCEMENT PLANS                   | PILLAR III DISCLOSURE MILESTONE    |
|------------------------------|------------------|----------------------------|--|------------------------------------|
| Financed emissions           | High             | Medium                     | Yes, European Single Access Point from 2024 forward* | From 30th of June 2024 onwards     |
| Physical Hazards             | High             | High                       | No active plan                                       | From 31st of December 2022 onwards |
| Green Asset Ratio            | Medium           | Medium                     | No active plan                                       | From 31st of December 2023 onwards |
| Top 20-carbon intensive list | Low              | Medium                     | No active plan                                       | From 31st of December 2022 onwards |

- *Low= Data and methods uncertainties are limited in number and scope, with guidance gaps easily identified.*
- *Medium= Data and methods uncertainties are more numerous in number and broader in scope, with guidance gaps more difficult to address.*
- *High= Data and methods uncertainties are broad based with unclear guidance gaps requiring significant further development.*

\*= Proposed timeline for ESAP becoming operational, final decision pending.



# Disclaimer and considerations

The selected metrics may be read as interrelated to the broader European and global disclosure requirements and practices in this area, although the definitions applied herein are sourced from the ITS on Pillar III disclosures on ESG-related risks.

Banks are expected to continue improving their ability to investigate the materiality of ESG, for their business models and risk management, across the selected metrics, over time; therefore, the identified practices for addressing common challenges only reflect banks statuses in response to point-in-time guidance circumstances. As guidance and practices in this area are developing rapidly, the relevance of these practices may diminish as further guidance is provided by the relevant authorities. DWS note that improving comparability is also not necessarily equivalent to seeking increased standardization across banks.

Transparency enhancements are seen as potentially more beneficial than standardisation in some instances, as the availability of information increases transparency, eventually leading to more prudent management of systemic risk within and across the European banking industry. Given the significant and non-linear challenges associated with managing climate change and other ESG-related risks across the European economy, targeted improvements in disclosure transparency are seen by the DWS as a potentially important risk mitigation tool. The participating banks however share the same opinion that further convergence in practices will require clarifications in data and methodological guidance on certain topics such as data quality hierarchies, impact accounting attribution, and the possible provision of common data sources.



# Methodological approach

The DWS within the C-ESG Risk RT was initiated in H1 of 2023. First meetings were held in May, where a total of 12 participating banks agreed on the objectives, familiarized with the topics, and were divided into sub-working groups on a voluntary basis. The scope of the DWS covered the ITS on Pillar III disclosures on ESG-related risks interpretations for four key metrics: Financed Emissions, Physical hazard exposures, GAR, and Top 20 carbon-intensive firms.

## A brief description of each metric and the regulatory disclosure timeline:

### FINANCED EMISSIONS

- Template 1 - Banking book climate change transition risk
- **Regulatory disclosure timeline:** From 30th of June 2024 onwards

Template 1 provides information on assets that are more exposed to the risks that institutions may face from the transition to a low-carbon and climate-resilient economy. In particular, institutions must disclose information on their exposures towards non-financial corporates that operate in sectors that contribute highly to climate change and in carbon-related sectors, and on the quality of those exposures, including credit quality information on nonperforming exposures, stage 2 exposures, and related impairments and provisions. Institutions are also asked to disclose information on their scope 3 emissions, that is, financed GHG emissions (scope 1, 2, and 3 emissions of counterparties), if already available, in the relevant columns of the template, including information on the methodology and sources used.

Those institutions that are not yet estimating their scope 3 emissions must disclose their plans to implement methodologies to estimate and disclose this information.

## **PHYSICAL HAZARD EXPOSURES**

- Template 5: Banking book – climate change physical risk
- **Regulatory disclosure timeline:** From 31st of December 2022 onwards

Template 5 provides information on exposures in the banking book (including loans and advances, debt securities and equity instruments not held for trading and not held for sale) towards nonfinancial corporates, on loans collateralised with immovable property property and on repossessed real estate collateral that are exposed to chronic and/or acute climate-related hazards. The template includes information by sector of economic activity (NACE classification) and by geography, in line with the TCFD recommendations in the supplemental guidance for institutions, for those sectors and geographical areas more exposed to climate change acute and chronic events.

## **GREEN ASSET RATIO**

- Templates 6, 7 and 8: Assets and exposures contributing to and enabling climate change mitigation and adaptation
- **Regulatory disclosure timeline:** From 31st of December 2023 onwards

Templates 6,7 and 8 in the Pillar III ESG ITS include templates the quantitative information on assets and exposures that are contributing to and enabling climate change mitigation and adaptation by supporting institutions' counterparties on the path towards sustainability, in accordance with the Taxonomy Regulation, and helping them to mitigate their climate change transition and physical risks. Template 6 includes a summary of the GAR values, and templates 7 and 8 include detailed information on the GAR showing the Taxonomy-aligned activities as proposed under Article 8 of the Taxonomy Regulation. Template 9 shows information on taxonomy alignment of exposures towards counterparties in the banking book, including corporates that do not have disclosure obligations under the Non-financial Reporting Directive (NFRD).



## TOP 20 CARBON-INTENSIVE FIRMS

- Template 4: Exposures in the banking book to the top 20 carbon-intensive firms in the world
- **Regulatory disclosure timeline:** From 31st of December 2022 onwards

The purpose of Template 4 is to show institutions' exposures towards the top 20 carbon-intensive companies in the world. It is complementary to the sectoral approach applied in the previous templates and provides a deeper insight with more granular data. It includes information on the weighted average maturity of the exposures, providing some insight on how these exposures may be impacted by longer-term climate change transition risks.

# Scope of analysis and data collection

To ensure comparability of outcomes, a standardized questionnaire was developed and distributed with DWS participants. Each bank was requested to contribute by responding to the questionnaire and participate in sub-working group meetings. Responses were collected, summarized anonymously, and further discussed within the assigned sub-working groups. The following four topics were agreed to be assessed for each metric:

- Application of proxies,
- Restatement approach,
- Attribution methodology and,
- Common data sources applied.

**Table below provides a brief description of the topics in scope:**

| <b>TOPIC</b>                            | <b>DESCRIPTION</b>  |
|---|---|
| <b>Potential application of proxies</b> | Applied proxy types and underlying methods as relevant (e.g., for Financed Emissions the PCAF proxy database for counterparty emissions estimates and internally developed proxies; for Physical hazard exposures the use of postal codes for asset location; for GAR the use of the JRC proxy methodologies for alignment) and the treatment relative to other data types (e.g., multiple proxies of different quality used per estimate).   |
| <b>Approach applied for restatement</b> | Possible uncertainties arising in the context of each metric and the approach applied and externally communicated to manage, mitigate, and facilitate improvements in the estimate over time (e.g., use of PCAF data quality score hierarchy and reporting of PCAF data quality scores; applied IPCC scenarios for physical hazard disclosures to estimate a range in terms of RCP scenario outputs).   |
| <b>Attribution</b>                      | Methods applied to improve the attribution of total impacts by a counterparty or on an asset type relative to financing exposure; (e.g., Market Value versus Book Value of Equity for financed emissions in lending; estimation according to collateralised asset type / features versus uncollateralised lending / how to handle relevant methodological issues e.g., remedial actions taken to avoid possible double counting across Scopes 1-3, counterparties and/or portfolios and asset types). |
| <b>Common data sources</b>              | Data sources publicly available and applied in accordance with Pillar III guidance and market practices (e.g., national statistical data).  |

# Synthesis of Outcomes

Each of the four metrics in scope were further discussed within the assigned sub-working groups. Outcomes were finalized by DWS participants, resulting in the identification and agreement on practices applied to address one or more of the following areas of uncertainty:

## **Data challenges:**

Data-related challenges in the context of this report are described as challenges in the accessibility of the relevant datapoints, uncertainty of the applied data, and data sourcing difficulties. For each metric, banks disclose a combination of collected and verified customer datapoints, enriched with estimates. As of now, the industry is relying heavily on estimates, due to limited data availability and lack of established market practices. This results in banks facing at times very high levels of uncertainty within their disclosed figures for some metrics. As an example, for financed emissions disclosures the vast majority of participants apply emission estimates because there are known data gaps, e.g., CHG emission inventories are not yet requested on a regulatory basis, and challenges within common databases. These issues include outdated emission factors, conservative estimates for specific portfolios and gaps in information for some economic activities or geographies.

## **Methodological challenges**

Methodological challenges in the context of this report are described in the context of either limited or vague guidance on specific metrics, resulting in differing interpretations and non-comparable practices across the industry. The results of the DWS indicate that participating institutions face challenges in e.g., interpreting methodologies for physical hazard sensitivities, applying contradictory guidance for the GAR across reporting standards, or developing data quality hierarchies for new metrics.

Transparency suggestions proposed by the DWS participants are targeted at mitigating risks associated with data and methodological uncertainties:

- Where data or methodological applications vary widely across bank's disclosures due to differing regulatory interpretations, raising the risk of non-comparable disclosures;
- Where data or methodological quality is significantly limited across parts of or the entire industry, impacting the precision and accuracy of banks' disclosed exposures; or
- Where data and methodological gaps are addressed without clear guidance, potentially raising the risk of greenwashing accusations by a bank's stakeholders.



# Outcomes

Outcomes for the DWS are presented as identified practices for addressing data and methodological uncertainties, with associated targeted suggestions for improved transparency to facilitate more comparable disclosure of risk exposures by individual banks. To avoid misinterpretation and overlapping of the outcomes, suggestions are categorized per metric, and by topic based on the key discussion points identified within the sub-working groups of the DWS.

## Financed emissions

According to EBA, Template 1 provides information on assets that are more exposed to the risks that institutions may face from the transition to a low-carbon and climate-resilient economy. In particular, institutions disclose information on their exposures towards non-financial corporates operating in sectors that contribute highly to climate change and in carbon-related sectors, and on the quality of those exposures, including credit quality information on nonperforming exposures, stage 2 exposures and related impairments and provisions. Institutions are also asked to disclose information on their scope 3 emissions, that is, financed GHG emissions (scope 1, 2 and 3 emissions of counterparties), if already available, in the relevant columns of the template, including information on the methodology and sources used.



Amongst DWS participants the most common data management practice for financed emission estimation is collecting emission data from counterparties where available. If relevant datapoints are not disclosed or available, banks apply sector specific emission factor estimates from the PCAF-database, thus establishing a good foundation for cross-bank comparability on proxy information. The voluntary PCAF-methodology allows disclosing banks to calculate their data quality, providing a clear picture of the ratio between direct customer data and emission estimates.

However, as banks are currently relying on emission estimates, whenever actual emission data is not available, further developments for data collection processes are necessary.

The European Sustainability Reporting Standards (ESRS) will also assist banks in the near future to mitigate data-related challenges. Other common practices include areas such as internally developed proxies, e.g., for target setting purposes.

As some participants have already voluntarily disclosed their financed emissions estimates, the differences in disclosure maturity are partially explained by the regulatory disclosure timeline as full portfolio is only expected to be disclosed by the 30th of June 2024.

The identified data and methodological uncertainties are introduced in the following paragraph.

# Areas of data or methodological uncertainty

▶ **Regarding data uncertainties, the most complex issue faced by banks for this metric is their reliance on emission factor estimates for a significant share of their disclosed volumes.** The consolidated results from the DWS indicate that banks are often applying the PCAF-database or similar databases as a source for emission factor estimates in absence of customer specific information to meet regulatory disclosure requirements. However, there are known challenges in applying the database consistently, such as outdated emission factors, outliers and anomalies for certain NACE codes, and conservative estimates for specific sectors. Ultimately this creates uncertainty for financed emissions assigned for certain portfolios, where the share of estimates constitutes the majority of the information (e.g., agricultural portfolios with many small and medium sized customers).

Participants have already acted to mitigate some of these risks, having developed internal proxies for specific sectors where e.g., production data is available. Such initiatives may provide a better picture of the actual emissions, but carry risks associated with internally deriving estimations used in reporting against banks' strategies.

DWS participants noted that enhancing and developing data collection processes is also time consuming in the absence of the European Single Access Point (ESAP), but the work has been initiated due to the timeline misalignment between regulatory disclosures and availability of comparable data at a European level.



**Regarding methodological uncertainties, the potential need to restate disclosed figures associated with strategic performance reporting will increase for banks as data quality improves.**

Maturation of disclosures against this metric should happen through further development of financed emissions data quality and calculation methodologies over time, increasing the amount of applied direct customer data and internally developed proxies, and enhancements in the applied data models.

To mitigate these uncertainties in the near-term, some DWS participants have already implemented restatement policies if a certain threshold is exceeded in comparison to the earlier disclosed strategic baseline figure. However, methodological guidance for restatement policies remains marginal. Explicitly for ITS on the Pillar III disclosures on ESG-related risks the baseline is not as relevant since it will not be disclosed. Banks may aim for transparency, by clearly pointing out how the developments within disclosures have occurred across reports (e.g., between strategy reporting and the ITS Pillar III) and reminding that the current disclosures reflect metric specific maturity, where restatements provide insight on the observed changes in data improvements.



**Regarding methodological uncertainties, guidance for calculating financed emissions is yet to be fully established and remains largely fragmented and voluntary.**

Many banks have voluntarily disclosed their financed emissions estimates, but the applied methodologies require further alignment across regulatory exercises. For example, previous supervisory exercises such as the Climate Stress Test applied a calculation approach resembling financed emissions, in comparison to the PCAF-methodology.

As most banks are continuing to develop their data models in this area already, applying a single methodology becomes operationally important and raises the regulatory risks over the longer-term.



**Regarding methodological uncertainties, guidance for the application of Scope 3 emissions for disclosures is lacking, but given current data quality introducing it as such does not guarantee an increase in disclosure quality.** In June 2024, the regulatory disclosures are set to cover all relevant NACE codes, for Scope(s) 1, 2 & 3. Due to increasing scope of ESG-related disclosures, e.g., Scope 3, participants indicated that current guidance on value chain-related impacts is limited, and additional guidance would mitigate issues such as double counting of financed emissions across counterparties and scopes.

Banks are aware of the gaps within PCAF-methodology, resulting in compromised cross-bank comparability to some extent. Participants see that widening of the disclosure requirements to cover Scope 3 will create additional uncertainties and challenges, to an already nascent estimation.

# Targeted suggestions to improve transparency

▶ **To address data uncertainties, banks may be transparent in allocating exposures to different portfolios, aim at explaining how cascading Greenhouse gas (GHG) emissions from Customer group downwards, filling dataset gaps, and combining misaligned GHG emissions and financial exposure data.** Banks may introduce the differences between exposures disclosed across other reports, e.g., to ensure alignment with the PCAF Standard on applying methods for corporate loans (Business Loans) and asset-backed financing (Residential Real Estate, Commercial Real Estate and Motor Vehicles) when different emission factors may be applied that are not aligned with banks broader disclosures of the same portfolios.


Banks may also seek to apply interpretations of these portfolio splits in a manner consistent with other institutions, e.g., how estimations for the business loans and asset-backed components of Commercial Real Estate are divided and when. As the availability of disclosed customer data varies across markets, there is an increasing need to aggregate the data e.g., from Group level to the underlying subsidiaries or transactions. Banks may introduce the applied level of application, the associated allocation methodology and any deviations from e.g., PCAF Standard, allowing for increased comparability across disclosures. Where data gaps persist in utilised datasets, e.g., for PCAF emissions factors by geography and economic activity, filling them through imputation methods may support retaining a broader coverage in the disclosed estimated volumes. Banks may consider increasing their transparency in the approach applied to fill the gaps, with the aim of mitigating potential greenwashing and increasing comparability in their disclosures.


Finally, banks may indicate when e.g., emissions factors and financial exposure information are combined with different levels of granularity or points in time (e.g., outdated emission factors for current exposures) for individual portfolios or as a general decision rule in the data model. For many institutions, a lack of available data means uncertainties are introduced to the estimate through the use of multiple data sources with differing levels of quality.



**To address methodological uncertainties, banks may define the basis for assessing the materiality of excluded portfolios, describe the excluded portfolios where materiality requirements are met, or describe the development of any bespoke deviations or methodological additions to committed accounting standards (e.g., PCAF).** Limiting uncertain estimations for some portfolios from disclosures may be seen as a mitigation of potential greenwashing, as an alternative to increasing the transparency around how data gaps are addressed. If specific parts of the portfolio are chosen not to be disclosed, then a clear description indicating the reasoning for exclusion may be provided. As recognized and mentioned in the PCAF GHG Accounting Standard, the absence of a global methodology for specific activities to quantify financed emissions may justify the exclusion of certain parts of the portfolio for a period of time. This recommendation must be read in compliance with the requirements on materiality as outlined in the ITS on Pillar III disclosures on ESG-related risks. Banks may also aim to present the allocation of emissions and the possible deviations according to any voluntary methodologies where they have made a public commitment to comply with e.g., the PCAF-standard. PCAF recognizes a lag between financial reporting and emission-related reporting, thus advocating for banks to apply the most recent data available. For example, one bank introduced the allocation of Greenhouse Gas emissions financing to the balance sheet applying an adjustment in the Equity Value including Cash (EVIC) formula replacing the market value of equity with book value of equity (i.e., to mitigate the inflationary impact of more volatile market value fluctuations on the financed emissions achievement levels over time) and explained the deviation in their disclosures.

Additionally, banks are encouraged to disclose any deviations on the attribution of emissions in accordance with common methodologies. Finally, banks may present the application of their data model to a reasonable extent to increase transparency and allow for cross-bank comparability.

 **To address methodological uncertainties, banks may introduce the relative impact of baseline or trend volume recalculations, the basis for recalculation, and applied recalculation policies, especially in reporting against strategic objectives.** As data quality is enhanced and portfolio coverage increased over time, there exists a possibility for changes within emission estimates for the set baseline year to which performance-based calculations are referenced. PCAF suggests within their methodology that financial institutions establish a recalculation policy to ensure the consistency, comparability, and relevance of the reported GHG emissions data over time. Banks can introduce the possible impacts to the baseline in order to mitigate the risk of greenwashing and allowing for continuous follow-up on data quality. The consolidated results indicate that at least one participating bank has established such policy, where the baseline is to be restated if a certain threshold is exceeded e.g., due to data quality improvement or model enhancement.

 **To address data and methodological uncertainties, banks may ensure the introduction of data quality indicators and describe internally developed proxies, including definitions of applied methodologies and scope assumptions impacting reported volumes.** As the vast majority of banks apply the PCAF Standard as a source for emission factors, banks may ensure alignment with the data quality ratios and, therein the prescribed data quality hierarchy. As the data quality varies across asset classes, PCAF encourages banks to apply alternative approaches. Results indicate that some banks have also developed internal proxies for specific industries and subsegments that seek to enhance the data quality scores disclosed for selected portfolios, e.g., shipping and tenant owned associations (TOA's).

Once applied, banks may describe the methodology for any internally developed proxies and the assumed allocation within the data quality hierarchy applied. Additionally, the PCAF-aligned data hierarchy may provide valuable insight on data capture and development, enabling institutions to improve their data coverage over time for this metric and potentially others as well.

## Physical hazards

According to EBA, Template 5 provides information on exposures in the banking book (including loans and advances, debt securities and equity instruments not held for trading and not held for sale) towards nonfinancial corporates, on loans collateralised with immovable property and on repossessed real estate collateral that are exposed to chronic and/or acute climate-related hazards. The template includes information by sector of economic activity (NACE classification) and by geography, in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations in the supplemental guidance for institutions, for those sectors and geographical areas more exposed to climate change acute and/or chronic events.

Consolidated results indicate that DWS participants share common practices for physical hazard disclosures. Such practices include the application of same data sources for, e.g., applied scenarios and intervals. However, currently market practices and regulatory guidance are not yet fully established, resulting in bank-specific interpretation, decreasing cross-bank comparability. As the granularity of the applied key attributes differ across the industry, the importance of detailed methodological descriptions should be emphasized. Additionally, further requests and more detailed proposals will be shared in collaboration and alignment with the Physical Hazard WS, which is ran in parallel within the C-ESG RT format.



# Areas of data or methodological uncertainty

▶ **Regarding data uncertainties, absence of any official common data sources means cross-bank comparability is highly difficult to achieve.** As common practices across the industry become more established and disclosures are further enhanced, a list of accepted data sources and guidance on how to apply them would increase cross-bank comparability. Participants underline that a fully systematic approach might not be feasible, since banks operating environments are not fully comparable and from a systemic risk management perspective full standardisation is not optimal.

However, developing a set of official and common sources are seen as an appropriate starting point to ensuring a minimum standard of delivery and comparability to developing common approaches to e.g., defining sensitivities and exposures. Publishing and maintaining a list of sources would be highly beneficial to the whole industry in that context. As evidence towards this uncertainty, application of sources in the DWS had a very low level of alignment across participants for this metric.


▶ **Regarding methodological uncertainties, current guidance for the application of uncertain and limited data is too vague, requiring more detailed guidelines, to facilitate robust methodological development while guidance for restatement practices for physical hazards is yet to be provided.** The lack of guidance on applying different data qualities in the development of new methodologies leaves too much space for bank specific interpretation, resulting in decreased cross-bank comparability and increased uncertainty.


For example, there are wide variations in terms of the maturity of estimating physical hazard sensitivities and impacts to immovable collaterals versus business operations of non-financial corporates. Further and despite participants sharing some common practices in the methodological application of their datapoints, the lack of a granular data hierarchy (e.g., address level vs postal code and country-level) comparability across disclosures means these practices are only comparable in theory given that banks apply the data at differing levels of granularity across variable scopes.

Finally, current practices also result in a significant range of uncertain estimates regarding future potential exposure, possibly requiring multiple restatements as accuracy and precision of data, methods and modelling improve over time. To mitigate restatements and build confidence among stakeholders in the developing metric, uncertainties surrounding when to potentially restate could be resolved commonly. Once practices are established, banks may aim to implement within their disclosures, to ensure transparency and improve comparability across the industry.

# Targeted suggestions to improve transparency

▶ **To address data and methodological uncertainties, banks may align key datapoints at an equal granularity across dimensions (e.g., asset location, hazard scenarios) with enhanced transparency in the data sources applied for each.** Banks may introduce and align the granularity on the representative contribution of banks asset location, hazard data, and alignment with the granularity between asset location and risk hazard data, e.g., if asset location is at postal code level, then physical hazard data should be of matching granularity. The DWS results indicate that improved guidance on the application of specific datapoints, e.g., alignment across data granularity, would increase disclosure comparability. As aiming for highest available granularity mitigates possible greenwashing risk for disclosures, banks may aim to include geospatial information, e.g., location of asset, as the highest data quality. To ensure a minimum level of transparency across banks, a data hierarchy may be introduced by disclosing institutions to explain the granularity of application for e.g., asset location, quantification method, and risk hazard data. Creating such a hierarchy may enhance transparency in comparing to peers, e.g., if asset location is on postal code level, the physical hazard should be of same granularity. Banks may also be transparent regarding the applied data sources and representative contribution to the estimated volumes, especially when relying on third-party providers, including the basis and rationale for exclusion of exposures. As the market practices for physical hazards are yet to be established, comparability across banks creates challenges. To mitigate such issues, banks may provide detailed information on the estimated volumes, e.g., the limitations and scoping, described in percentages. To ensure transparency, banks may introduce the exclusion of specific exposures according to the materiality requirements for the ITS Pillar III on ESG-related risks with clear thresholds.

 **To address methodological uncertainties, banks may align key terminology, provide structured descriptions of the types of hazards and time horizons considered.** Suggested references for aligned terminology are based on scientific consensus, e.g., application of the Intergovernmental Panel on Climate Change – IPCC – definitions and on regulatory requirements, e.g., the classification of climate-related hazards issued by the European Commission. By utilising same or similar terms, cross-bank comparisons are more useful and efficient, including an advantage for regulatory interpretation. Key terms, e.g., sensitivity, aiming to describe to what extent rising levels of GHG emissions affect earth’s temperature to be defined and aligned across the industry. Banks may provide structured descriptions of applied methodologies on assessing physical hazard exposure, types of hazards included, and time horizon. In order to increase cross-bank comparability, banks would highly benefit of describing the type of applied hazards, exposure amounts, and time horizons. Transparency and comparability are achieved by not necessarily applying the same methodologies but describing those in greater detail, e.g., applying a specific Representative Concentration Pathway (RCP) to a specific time horizon, e.g., 2011-2040 may ultimately create different results, if other RCP’s or time horizons are applied. Finally, regarding methodological uncertainties as to when it is appropriate to disclose banks may consider that in the context of a rapidly developing metric, both in terms of data and methods, disclosures are likely made according to the ‘best available information at the time’ and any restatement considerations may reflect that all improvements do not necessarily need to trigger statements over time.

 **To address further comparability challenges, banks physical hazard exposures may be reported in several tables to provide a more accurate picture on vulnerabilities by geographical area. However, to support comparability, an aggregated table for all relevant exposures may be disclosed.** As the ITS on the Pillar III disclosure contains both quantitative and qualitative information, banks may seek to provide further insight on the disaggregated exposures, e.g., introduce the specific components and the relevancy. Additionally, banks may introduce an aggregated summary to ensure cross-bank comparability.

# Green Asset Ratio

According to EBA, templates 6,7 and 8 in the ITS on Pillar III include templates providing quantitative information on assets and exposures that are contributing to and enabling climate change mitigation and adaptation by supporting institutions' counterparties on the path towards sustainability in accordance with the Taxonomy Regulation.

Template 6 includes a summary of the GAR values, and templates 7 and 8 include detailed information on the GAR showing the Taxonomy-aligned activities as proposed under Article 8 of the Taxonomy Regulation. From a Pillar III reporting perspective, it is important to note that BTAR is not included in the GAR templates (6, 7 & 8). Instead, BTAR is a separate requirement, to be covered in three templates (9.1, 9.2 & 9.3) with first disclosure as of 31st of December 2024.

Consolidated results indicate that common practices, such as application of certain proxies (for BTAR) and identified areas of uncertainty, are aligned amongst DWS participants. However, as market practices are not fully established and methodological guidance requires further elaboration, disclosures are not fully comparable across the industry.

**Identified areas of data and methodological challenges are introduced in the following paragraph.**

# Areas of data or methodological uncertainty


- ▶ **Regarding data uncertainties, for banks to be able to increase disclosure transparency and limit uncertainty, a common data list designed for GAR would be highly beneficial.** For example, the list could cover areas such as providing further information on maintained car models.

As market practices become more established, it is increasingly important to note that financial institutions are currently operating in a place of uncertainty with limited data accessibility, the disclosed figures merely reflect the maturity of the metric at a certain point in time.

- ▶ **Regarding methodological uncertainties, as banks prepare to disclose the Banking Book Taxonomy Alignment Ratio (BTAR) guidance on the application and use of estimates remains incomplete.** Methodological limitations include reporting for smaller counterparties which do not publicly report Key Performance Indicators (KPI's), application of certain criteria for specific segments, e.g., should disclosing banks apply DNSH for retail counterparties, and application of proxies for BTAR, e.g., expired EPC's.

To increase cross-bank comparability and transparency, banks may aim to provide detailed descriptions of how methodologies and proxies have been applied.

# Targeted suggestions to improve transparency

 **To address data uncertainties, banks may disclose the use of expired Energy Performance Certificates (EPC's) for BTAR, use of external energy consumption data and associated definitions for GAR and BTAR, and process and definitions for identification of NFRD counterparties for GAR and BTAR.** Expired certificates are considered inappropriate for GAR reporting but may be applied for internal purposes or BTAR as a proxy estimate. Banks may seek to provide clear description if expired EPCs are applied or are going to be applied for reporting purposes. Although expired EPCs are applicable as proxies, further methodological enhancements are required in this area. Banks may aim for transparency in the application of external energy consumption data where available and introduce the differences within energy consumption and EPC definitions across different markets. As the disclosed estimated are relying on availability and granularity of EPC and energy consumption data, cross-bank comparability is difficult since the availability and accessibility of customer data differ across markets.

However, data collection should be completed where available through external vendors. The introduction of energy consumption and EPC data may be provided, to increase understanding in common practices across the industry for both GAR and BTAR. Finally, banks may introduce the process of identifying NFRD corporates, since there are discrepancies in identifying NFRD reporting corporates and national applications of NFRD thresholds. The process of identifying the NFRD corporates is challenging, since there are discrepancies between data providers. Banks are suggested to clearly describe their identification processes, to avoid greenwashing and increase cross-bank comparability and associated assumptions. This is applicable for both GAR and BTAR disclosures.



**To address methodological uncertainties, banks may present the application of Do No Significant Harm (DNSH) and Minimum Social Safeguards (MSS) criteria.** As banks are developing internal methodologies to apply DNSH and MSS criteria on specific exposures, a harmonized approach across the industry and across the ITS Pillar III and financial statement disclosures is beneficial to ensure transparency and comparability. Participants agree that disclosing harmonized GAR figures means banks may target for transparent description of the application of such criteria and disclosure of harmonized assumptions across all reporting formats.



# Top 20-carbon intensive firms

According to EBA, the purpose of template 4 is to exhibit institutions' exposures towards the Top 20 carbon-intensive companies in the world. It is complementary to the sectoral approach applied in the previous templates and is set to provide a deeper insight, with more granular data. Identified common practices for the Top 20-carbon intensive firms include applying the same reporting granularity and disclosing the provider of the list, e.g., Climate Accounting Institute (CAI), Thomson Reuters, and Carbon Disclosure Project (CDP).

## Areas of data or methodological uncertainty

- ▶ **Regarding data and methodological uncertainties, significant concerns surround applying an appropriate list for Top 20-carbon intensive firms' identification and reporting against it at the appropriate counterparty granularity.** A lack of guidance on choosing the appropriate list and on how to treat the structure of the reported entity, e.g., should banks disclose the exposures on either Group- or Subsidiary-level mean most banks do not disclose comparably on this metric. Banks also highlight that they are subject to data accessibility challenges since the lists are extracted through external vendors. According to the DWS results, banks have largely applied the same vendors for the respective lists among a shortlist of available vendors. However, these deviations and their differing application introduce an unnecessary uncertainty for this metric given its limited scope for adequately presenting the potential climate-related transition risk exposures for banks.

# Targeted suggestions to improve transparency

▶ **To address data and methodological uncertainties, banks may report the basis of selecting the Top 20-carbon intensive firms list and level of granularity applied in defining the counterparties.** As stated in the ITS on Pillar III disclosures on ESG-related risks, banks are requested to provide information on the sources, including covered period (date in time), which have been applied in the identification of the most polluting companies and may further explain the basis of their selection to mitigate potential greenwashing. Additionally, banks may explain the level of granularity at which they have applied the list to their counterparties in the identification e.g., if the list is applied on Group- or Customer-level. This would increase transparency across disclosures and allow for better comparability.



# Glossary

**Greenwashing:** Greenwashing defined by European Supervisory Authorities (ESA's): Practice whereby sustainability-related statements, declarations, actions, or communications do not clearly and fairly reflect the underlying sustainability profile of an entity, a financial product, or financial services. This practice may be misleading to consumers, investors, or other market participants.



# Annex(es)

**Table 1. Financed emissions targeted suggestions summary.**

| Targeted suggestions to enhance disclosure transparency   | Addressing data or methodological uncertainties | Area addressed by complying                                   |
|---|---|---|
| <p>To address data uncertainties, banks may be transparent in allocating exposures to different portfolios, aim at explaining how cascading Greenhouse gas (GHG) emissions from Customer group downwards, filling dataset gaps, and combining misaligned GHG emissions and financial exposure data.</p>                                     | <p>Data</p>                                     | <p>Disclosure comparability</p>                               |
| <p>To address methodological uncertainties, banks may define the basis for assessing the materiality of excluded portfolios, describe the excluded portfolios where materiality requirements are met, or describe the development of any bespoke deviations or methodological additions to committed accounting standards (e.g., PCAF).</p> | <p>Methodology</p>                              | <p>Disclosure comparability &amp; Greenwashing mitigation</p> |
| <p>To address methodological uncertainties, banks may introduce the relative impact of baseline or trend volume recalculations, the basis for recalculation, and applied recalculation policies, especially in reporting against strategic objectives.</p>  | <p>Methodology</p>                              | <p>Disclosure accuracy improvement</p>                        |
| <p>To address data and methodological uncertainties, banks may ensure the introduction of data quality indicators and describe internally developed proxies, including definitions of applied methodologies and scope assumptions impacting reported volumes.</p>   | <p>Data &amp; Methodology</p>                   | <p>Disclosure comparability &amp; Greenwashing mitigation</p> |

**Table 2. Physical Hazard targeted suggestions summary**

| Targeted suggestions to enhance disclosure transparency  | Addressing data or methodological uncertainties | Area addressed by complying                                |
|--|---|--|
| To address data and methodological uncertainties, banks may align key datapoints at an equal granularity across dimensions (e.g., asset location, hazard scenarios) with enhanced transparency in the data sources applied for each.   | Data & Methodology                              | Disclosure comparability                                   |
| To address methodological uncertainties, banks may align key terminology, provide structured descriptions of the types of hazards and time horizons considered.  | Methodology                                     | Disclosure comparability & Disclosure accuracy improvement |
| To address further comparability challenges, banks physical hazard exposures may be reported in several tables to provide a more accurate picture on vulnerabilities by geographical area. However, to support comparability, an aggregated table for all relevant exposures may be disclosed. | Data  | Disclosure comparability & Greenwashing mitigation         |

**Table 3. Green Asset Ratio (GAR) targeted suggestions summary**

| Targeted suggestions to enhance disclosure transparency   | Addressing data or methodological uncertainties | Area addressed by complying                               |
|---|---|---|
| To address data uncertainties, banks may disclose the use of expired Energy Performance Certificates (EPC's) for BTAR, use of external energy consumption data and associated definitions for GAR and BTAR, and process and definitions for identification of NFRD counterparties for GAR and BTAR. | Data  | Disclosure comparability                                  |
| To address methodological uncertainties, banks may present the application of Do No Significant Harm (DNSH) and Minimum Social Safeguards (MSS) criteria.   | Methodology                                     | Disclosure accuracy improvement & Greenwashing mitigation |

**Table 4. Top 20-carbon intensive firms suggestions summary**

| <b>Targeted suggestions to enhance disclosure transparency</b>  | <b>Addressing data or methodological uncertainties</b> | <b>Area addressed by complying</b>                 |
|---|--|--|
| To address data and methodological uncertainties, banks may report the basis of selecting the Top 20-carbon intensive firms list and level of granularity applied in defining the counterparties. | Data & Methodology                                     | Disclosure comparability & Greenwashing mitigation |