
EU REGULATORY SOLUTIONS

ESG Pillar 3 Disclosures & Sustainalytics Solutions



Background - EBA ITS on Pillar 3 Disclosures

- » Capital Requirements Regulation (CRR) requires **large institutions with securities traded on a regulated market of any European Member State** to disclose information on ESG risks, including physical and transition risks.
- » An institution is considered “large” if it meets any of the following conditions:
 - It is a “*Globally Systemically Important Institution*” (Article 131 of CRD);
 - It is an “*Other Systemically Important Institution*” (Article 131 of the CRD);
 - It is one of the 3 largest institutions in terms of total value of assets in the Member State in which it is established;
 - The total value of its assets on an individual basis, or, where applicable, on the basis of its consolidated situation in accordance with the CRR and the CRD, is equal to or greater than €30 billion.
- » CRR mandates the European Banking Authority (EBA) to develop draft implementing technical standards (ITS) specifying uniform formats and associated instructions for the disclosure of the information on ESG risks.
- » **EBA published its final draft ITS on these Pillar 3 disclosures on ESG risks on 24 January 2022.***
- » EC expressed its intention to endorse the draft ITS with some amendments, which EBA accepted on 17 October 2022



Pillar 3 – Summary of ESG Disclosure Requirements

EBA Requirements on Pillar 3 Qualitative Disclosures

QUALITATIVE DISCLOSURES

Qualitative information on environmental, social and governance risks

- **ESG Risks – Tables 1-3** – Large European banking institutions must disclose information on environmental, social and governance risks from end of 2022. For each risk category, the disclosure requirements will have to target 3 aspects: business strategy and processes, governance, risk management. This information must be disclosed on an annual basis for the first year and semi-annually thereafter.
 - *Examples of disclosures: Alignment of the remuneration policy with ESG risks; policies and procedures relating to direct and indirect engagement with customers on their ESG risk strategies; current standards that institutions use for ESG risk management*

EBA Requirements on Pillar 3 Quantitative Disclosures

RISK DISCLOSURES

CLIMATE CHANGE TRANSITION RISK
Information on exposures to sectors or assets that may highly contribute to climate change

- **Climate Change Transition Risks – Templates 1-4** – Disclosure on transition risks in banks portfolio, including collaterals, as well as their exposure to fossil fuel companies and scope 1, 2 and 3 carbon emissions. Disclosure required from end of 2022, with a phase-in period for scope 3 emissions and alignment metrics until June 2024.
 - *Example of disclosure: Exposure to fossil fuel companies excluded from sustainable climate benchmarks, and to other carbon-related sectors*

RISK DISCLOSURES

CLIMATE CHANGE PHYSICAL RISK
Risk exposures subject to extreme weather events (sector/geography)

- **Climate Change Physical Risks – Template 5** – Disclosure on physical risks. Covers the exposure of the banking book, including collaterals, to chronic and acute climate-related hazards. Disclosure required from end of 2022.
 - *Example of disclosure: Assets subject to impact from chronic climate change events by sector and geography*

EBA Requirements on Pillar 3 Quantitative Disclosures

GREEN ASSET RATIO

Information on exposures towards NFRD Corporates and Retail financing taxonomy-aligned activities consistent with Paris Agreement goals that contribute substantially to climate change mitigation (CCM) and adaptation (CCA), including information on transitional and enabling activities.

BANKING BOOK TAXONOMY ALIGNMENT RATIO

Information on exposures towards non-NFRD corporates not assessed in the GAR financing taxonomy-aligned activities consistent with Paris Agreement goals, contributing substantially to CCM and CCA. **Simplified assessment**, based on bilateral information and estimates.

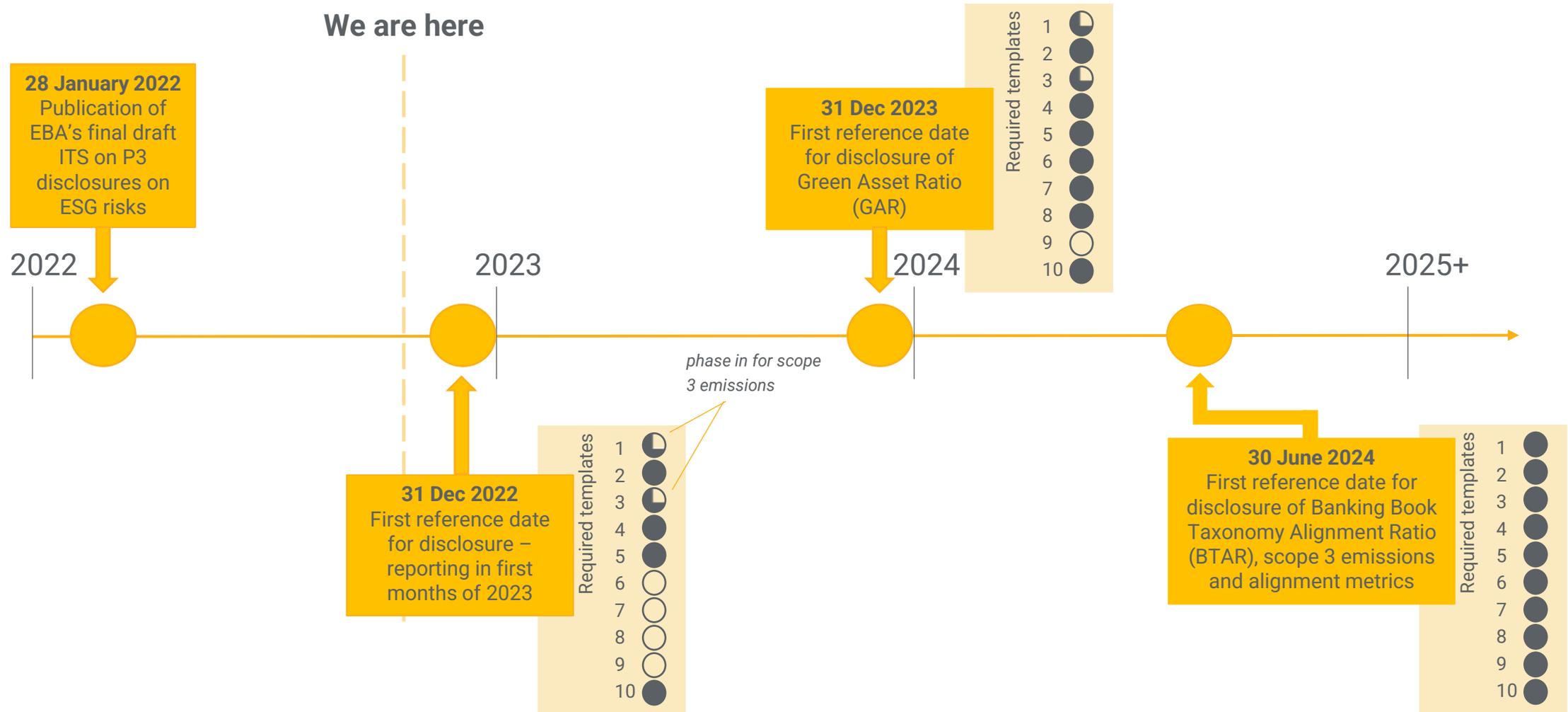
MITIGATING ACTIONS

Actions that support counterparties in the transition to a carbon neutral economy but that do not meet taxonomy criteria

Actions that support counterparties in the adaptation to climate change but that do not meet taxonomy criteria

- **Green Asset Ratio (GAR) – Templates 6-8** – Proportion of bank exposures related to Taxonomy-aligned activities within **NFRD Corporates** compared to the total assets of the credit institution. First reference period in December 2023.
 - *Example of disclosure: Generation or renewable energy (Contributing to CCM)*
- **Banking Book Taxonomy Alignment Ratio (BTAR) – Template 9** – Proportion of the banking book related to Taxonomy-aligned activities within **non-NFRD Corporates** compared to the total assets of the credit institution. First reference period in June 2024. To be provided on 'a voluntary basis.'
 - *Example of disclosure: Afforestation (Contributing to CCA)*
- **Other Mitigation actions – Template 10** – Information on other actions not covered by the EU Taxonomy which are put in place to mitigate climate change transition and physical risk. Disclosure required from end of 2022.
 - *Example of disclosure: Use of green or sustainable bonds and loans*

EBA Requirements on Pillar 3 Disclosures: Timeline



What's next?

2023?

- **Extension of scope** to quantitative disclosures on **other environmental risks and objectives** in line with future Taxonomy DA covering environmental objectives beyond climate change mitigation and adaptation

2024

- **Review of current disclosure requirements** by EBA to assess their relevance in the context of the evolution of the ESG policy framework at EU and international level

2024+

- **Extension of scope** to cover activities that **significantly harm the environment**, activities that **do not have significant impact on environmental sustainability**, and **social objectives**



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Tables 1-3: E, S and G Risks

QUALITATIVE DISCLOSURES

Qualitative information on environmental, social and governance risks

ESG Risks (Table 1-3) – Large European banking institutions have to disclose on environmental, social and governance risks from end of 2022. This information must be disclosed on an annual basis for the first year and semi-annually thereafter.

Source of Information

- » Information disclosed is regarding the bank's policies and strategies regarding E, S and G risks. While those policies and strategies depend on the bank's internal decision making, Sustainalytics data may be useful in implementation. E.g. by tying policies to certain targets, exclusions (e.g. Product Involvement) or thresholds (e.g. ESG Risk Ratings).

Relevant Sustainalytics Data (Partial Fit*)

- » ESG Risk Ratings;
- » Product Involvement;
- » Stewardship Services;
- » Global Standards Screening;
- » Controversies;
- » Corporate Governance Research

* Partial Fit indicates that relevant Sustainalytics data may not completely cover all required data points as they are defined within the regulation

Templates 1-4: Climate Change Transition Risk

RISK DISCLOSURES

CLIMATE CHANGE TRANSITION RISK
Information on exposures to sectors or assets that may highly contribute to climate change

- **Climate Change Transition Risks (Templates 1-4)** – Banks will have to disclose information on the transition risks in their portfolio, including collaterals, as well as their exposure to fossil fuel companies and scope 1, 2 and 3 carbon emissions.

Source of Information

- » Sector classification data (e.g. NACE) required, data sourced directly from collateral (e.g. energy efficiency of property), plus transition alignment metrics and carbon intensity metrics that could be sourced from Sustainalytics (see below)

Relevant Sustainalytics Data (Partial Fit)

Template 1: Credit quality of exposures by sector, emissions and residual maturity	Emissions data; EU Benchmarks Solution; EU Taxonomy Solution. Note: NACE code split currently not available
Template 2: Loans collateralized by immovable property - Energy efficiency of the collateral	N/A - Banks typically collecting data on property collateral directly
Template 3: Alignment metrics	Low Carbon Transition Rating + range of metrics available on Emissions Intensity, Percentage renewable energy production, Percentage renewable energy consumption, Product involvement (high carbon/fossil fuel involvement). Note: Sector specific metrics on the efficiency/ performance of companies not currently available
Template 4: Exposures to top 20 carbon-intensive firms	Emissions Intensity data



Template 5: Climate Change Physical Risk

RISK DISCLOSURES

CLIMATE CHANGE PHYSICAL RISK
Risk exposures subject to extreme weather events (sector/geography)

- **Climate Change Physical Risks (Template 5)** – Disclosure on physical risks. Like transition risks, the disclosures covers the exposure of the banking book, including collaterals, to chronic and acute climate-related hazards.

Source of Information

- » Physical climate risk data required which can be sourced from Sustainalytics, split into NACE sector classifications

Relevant Sustainalytics Data (Partial Fit)

- » Physical Climate Risk Metrics
- » *Note: NACE code split not currently available*

Templates 6-8: Green Asset Ratio (GAR)

GREEN ASSET RATIO

Information on exposures towards NFRD Corporates and Retail financing taxonomy-aligned activities consistent with Paris Agreement goals that contribute substantially to climate change mitigation (CCM) and adaptation (CCA), including information on transitional and enabling activities.

- **Green Asset Ratio (GAR) (Templates 6-8)** – The proportion of bank exposures related to Taxonomy-aligned activities within **NFRD Corporates** compared to the total assets of the credit institution. The first reference period starts from January 2023 and the first disclosure is due beginning 2024.

Source of Information

- » Alignment of companies to EU Taxonomy objectives of climate change mitigation and climate change adaptation (separate and overall) can be sourced from Sustainalytics. Requires aggregation across banking assets.

Relevant Sustainalytics Data (Partial Fit)

- » EU Taxonomy Solution, which includes:
 - » Split by eligibility and alignment
 - » Split by enabling and transitional activity types
 - » Split by climate adaptation, climate mitigation, and overall available December 2022.

Template 9: Banking Book Taxonomy Alignment Ratio (BTAR)

BANKING BOOK TAXONOMY ALIGNMENT RATIO

Information on exposures towards non-NFRD corporates not assessed in the GAR financing taxonomy-aligned activities consistent with Paris Agreement goals, contributing substantially to CCM and CCA. **Simplified assessment**, based on bilateral information and estimates.

- **Banking Book Taxonomy Alignment Ratio (BTAR) – Template 9** – The proportion of banking book related to Taxonomy-aligned activities within **non-NFRD Corporates** compared to the total assets of the credit institution. The first reference period starts from June 2023.

Source of Information

- » Estimated/voluntarily reported alignment of companies to EU Taxonomy that aren't subject to NFRD can be sourced from Sustainalytics (depending on company size) or sourced directly from these companies.

Relevant Sustainalytics Data (Partial Fit)

- » EU Taxonomy Solution, which includes:
 - » Split by eligibility and alignment
 - » Split by enabling and transitional activity types
 - » Split by climate adaptation, climate mitigation, and overall available December 2022

Template 10 – Mitigating actions

MITIGATING ACTIONS

Actions that support counterparties in the **transition** to a carbon neutral economy but that do not meet taxonomy criteria

Actions that support counterparties in the **adaptation** to climate change but that do not meet taxonomy criteria

- **Other Mitigating actions – Template 10** – Disclosure information on other actions to mitigate climate change transition and physical risk, beyond those assessed under the Taxonomy Regulation or that, while not meeting the strict screening criteria proposed in the Taxonomy, are still supporting the institutions' counterparties and mitigating institutions' own risks.

Source of Information

- » Request for information on bonds and loans financed by the bank that are characterized as sustainable, sustainability-linked, green or similar. This information will likely be sourced internally.

Relevant Sustainability Data

- » Not applicable



Annex

Mapping Sustainability Solutions to Pillar 3 disclosure requirements

Prudential disclosures on ESG risks (Article 449a CRR)	Data Sources	Relevant Sustainability Products
Table 1 - Qualitative information on Environmental risk	Internal bank information	ESG Risk Ratings; Product Involvement; Stewardship Services; Controversies; Global Standards Screening
Table 2 - Qualitative information on Social risk	Internal bank information	ESG Risk Ratings; Product Involvement; Stewardship Services; Controversies; Global Standards Screening
Table 3 - Qualitative information on Governance risk	Internal bank information	ESG Risk Ratings; Corporate Governance Research, Product Involvement; Stewardship Services; Controversies; Global Standards Screening
Template 1: Banking book- Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity	Sector classification system + Sustainability	EU Benchmarks Solution (companies excluded from EU Paris-aligned Benchmarks); EU Taxonomy Solution (CCM aligned companies); Emissions data (GHG financed emissions (scope 1, scope 2 and scope 3))
Template 2: Banking book - Climate change transition risk: Loans collateralized by immovable property - Energy efficiency of the collateral	From property/ collateral	NA
Template 3: Banking book - Climate change transition risk: Alignment metrics	Sector classification system + Sustainability	Low Carbon Transition Rating; Emissions intensity; Percentage renewable energy production (PAI Solution); Percentage renewable energy consumption (PAI Solution) Product involvement
Template 4: Banking book - Climate change transition risk: Exposures to top 20 carbon-intensive firms	Sustainability	Emissions Intensity data
Template 5: Banking book - Climate change physical risk: Exposures subject to physical risk	Sector classification system + Sustainability	Physical Climate Risk Metrics
Template 6. Summary of GAR KPIs	Sustainability	
Template 7 - Mitigating actions: Assets for the calculation of GAR	Sustainability	EU Taxonomy Solution (CCM and CCA eligible and aligned data points, reported data for NFRD companies and estimated data for non-NFRD companies)
Template 8 - GAR-(%)	Sustainability	
Template 9 - Mitigating actions: BTAR	Sustainability	
Template 10 - Other climate change mitigating actions that are not covered in the EU Taxonomy	Client sourced	NA

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