Disclosure of environmental, social and governance risks according to pillar 3

The banking and finance sector play a key role in the implementation of sustainable development goals (SDGs). New disclosure requirements should promote a resource-efficient and sustainable circular economy, make investor decisions on ESG products easier and prevent greenwashing. targens helps to meet the requirements for increased transparency, keep to schedules and comply with the increased duty of care.

Regulatory Reporting on the highest level possible

Background

On 1 March 2021, the European Banking Authority (EBA) published the consultation paper for a technical standard (ITS) on the disclosure of ESG risks (Environment, Social, Governance) and has, therefore, fulfilled its mandate to specify the banking supervisory disclosure requirements in accordance with article 449a of CRR II (Capital Requirements Regulation). In the context of the pillar 3 report, quantitative and qualitative information on climate change-related transitory and physical risks and the scope thereof are disclosed.

Who is affected?

The disclosure requirement exists for institutes classified as large and with a connection to the capital market (>30 billion euros on the balance sheet) as well as all banks already required to provide a disclosure report according to the CRR II. Small credit institutes refer to the BaFin information sheet.

Scope of the disclosure

The scope of the disclosure report includes qualitative and quantitative requirements.

Qualitative requirementst

Qualitative requirements: Based on the 3 tables, information on ESG risks must be provided to supervisory bodies and responsibilities outlined.

- Management is responsible for the monitoring, implementation and establishment of strategies, risks and internal guidelines for the integration of ESG risks.
- Description of the measures to minimise ESG risks as well as mechanisms to identify, measure and monitor them.

The three tables are to be completed with the following information:

Table 1: Environmental Risks

Qualitative description of the environmental risks (the E in ESG) of the institute in text form or freeform description. The respective descriptions of the risks are grouped as follows:	
Business strategies and business processes:	This section explains the control bodies that exist for ESG risks along with a description of their structure.
Corporate management:	This section describes to what extent ESG risks are considered by the management with a view to the short-, medium-, and long-term, how these risks are managed, defines a risk framework, measures and monitors the achievement of goals and the company's guidelines on the ESG risks of customers and how to deal with them: For example, to what extent environmental risks are included in internal reports and how the internal exchange of information about them is structured.
Risk management:	Here, measures taken by the company to mitigate ESG risks, as well as mechanisms for their identification, measurement and monitoring and described: For example, definitions, methods and international standards on which the disclosure of environmental risks is based.

Table 2: Social Risks

Qualitative description of the social risks (the S in ESG) of the institute in text form or freeform description.	
Business strategies and business processes:	For example, the change being made in business areas to integrate social factors and the extent to which the associated risks are noted and taken into account.
Corporate management:	For example, to what extent corporate management is involved in the monitoring and control of social factors such as employee and employment relationships, consumer protection and the protection of human rights.
Risk management:	For example, activities, responsibilities and investment positions to minimise social risks.

Table 3: Governance Risks

Qualitative description of risks in connection with governance (the G in ESG) of the institute in text form or free-form description.	
Corporate management:	For example, to what extent the corporate management of business partners is involved in matters such as inclusion, transparency or ethical issues.
Risk management:	For example, to what extent the corporate management of business partners is involved in matters such as inclusion, transparency or ethical issues in risk management.

Quantative requirements

Based on 10 templates, it must be disclosed to what extent a bank is exposed to ESG risks itself and how it deals with this.

- Climate change-related transitory risks (templates 1-4): Details on exposures and on real-estate backed loans by sector (according to the trading book and banking book) as well as on exposures to the top 20 most carbon-intensive companies

- Climate change-related physical risks (template 5): Exposures according to the banking book involving climate change-related physical risks, categorised according to the NACE classification.

- Risk-minimising measures (templates 6-10): Quantitative details of the calculation of the Green Asset Ratio (GAR) and Banking Book Taxonomy Alignment Ratio (BTAR); qualitative and quantitative description of the risk-minimising measure that go beyond the template specifications.

The templates for the qualitative requirements must be completed as follows:

Template 1: Banking book - Transition risk of climate change: Quality of exposures by sector.	This template is used to consider the quality of the exposures related to climate change. It also concerns the quantitative capture of exposures by economic sector related to climate change risks. The sectors are divided into climate-related sectors and other sectors.
Template 2: Climate change transition risk: Real-estate backed loans - energy efficiency of the securities	This template defines the gross book value, as defined in Annex V Part 1 of implementing Regulation (EU) 2021-451 of the Commission, of loans backed by commercial and residential property, and real estate offered as security, including information on the energy efficiency of securities, measured in kWh/m^2 of energy consumption (columns b to g of the figure), in the form of EPC labels of securities in accordance with article 2 paragraph 12 of Regulation (EU) 2010/31 for EU countries or according to the relevant regulation on receivables outside the EU, if there is a correlation with the EU EPC label (columns h to n).

Template 3: Banking book - Risk of climate change transition: Metrics for adaptation	The institute uses this template to provide information on its efforts to adapt to the aims of the Paris Agreement for a selected number of sectors. Alignment disclosures indicate the extent to which financial flows are consistent with a low greenhouse gas emissions pathway under the Paris Agreement. The economic scenario that describes this decarbonisation pathway is the Net Zero Emissions by 2050 Scenario (NZE2050)12 from the International Energy Agency.
Template 4: Banking book - Risk of climate change transition: Exposures to the 20 most carbon-intensive companies	The institute uses this template to provide information on exposures to the most carbon-intensive companies in the world. This includes aggregated and anonymised information on the gross book value of the institute's exposures to up to 20 counterparties, which are among the 20 most carbon-intensive companies in the world. The information must be based on publicly available, reputable and accurate information. Examples of data sources used to identify companies with the highest carbon emissions include the Carbon Majors Database and reports from the Carbon Disclosure Project, the Climate Accountability Institute and Thomson Reuters. In the template, the institute indicates the data sources used to identify companies to include.
Template 5: Climate change transition risk: Physical risk of climate change: Risk positions related to a physical risk.	The institute uses this template to provide information on receivables in the banking book (including receivables, debt securities and equity instruments not held for trading and not held for sale) from non-financial limited companies, loans backed by real estate and secured by real estate, which are exposed to chronic and acute climate-related risks, by economic sector (NACE classification) and by geographical location of counterparty activity or security, for the sectors and geographical areas exposed to acute and chronic climate changes.
Template 6: KPIs of the taxonomy - Summary of the KPIs for the exposures considered in the taxonomy.	The institute uses template 6 to provide an overview of calculated KPIs, including the green asset ratio (GAR) according to the Commission Delegated Regulation (EU).
Template 7: Remedial measures: Asset values for the calculation of the GAR	The institute uses this template to provide information on the gross book value of the receivables, debt and equity instruments in its banking book, whereby the information is provided by type of counterparty, including financial limited companies, non-financial limited companies, private households, local municipalities and property loans to private households. In addition, the suitability of the taxonomy and the adjustment of the taxonomy of the risk positions with regard to the environmental goals of climate protection and adaptation to climate change according to article 9 letters a and b of Regulation (EU) 2020/852 are reported.
Template 8: GAR (%)	Based on the information provided in template 7, the institute uses this template to disclose the GAR according to the Commission supplementing Regulation (EU) 2020/852. This template should indicate to what extent the activities of the credit institute are considered to be environmentally sustainable according to articles 3 and 9 of Regulation (EU) 2020/852 to enable stakeholders to understand the measures taken by institutions to mitigate the climate change transition and physical risks.

Template 9: Reducing measures: BTAR	In this figure, for those counterparties that are non-financial companies and are not required to disclose, institutions shall include extended information on eligibility for taxonomy and taxonomy adjustment with regard to article 9 of Regulation 2020/852 on a best effort basis based on information they collect from their counterparties on a bilateral basis or based on estimates calculated.
Template 9.1: Mitigating measures: Asset values for the calculation of BTAR	This is where the institute gives the gross book value of the BTAR-relevant asset values.
tTemplate 9.2: BTAR %	In this template, the institute indicates the percentage of BTAR assets according to template 1 in relation to the total assets in the denominator of the BTAR according to line 17 in template 9.1.t
Template 9.3: Overview table - BTAR %	Summary of the BTAR template
Template 10: Other measures to contain climate change, which are not included in the EU taxonomy	This template should list other financial instruments which contribute to reducing the risk in connection with climate change, which are not listed in templates 8 and 9, such as EU green bonds and green federal securities. The following is to be indicated for each individual counterparty: type of financial instrument, total sum of gross book value (again with that which falls into the category of EU taxonomy given separately) and whether the financial instruments contribute to the reduction of transitory (transition risks) or physical (climate risks) risks. In addition, a qualitative description should be given of the extent to which the financial instruments contribute to risk reduction.

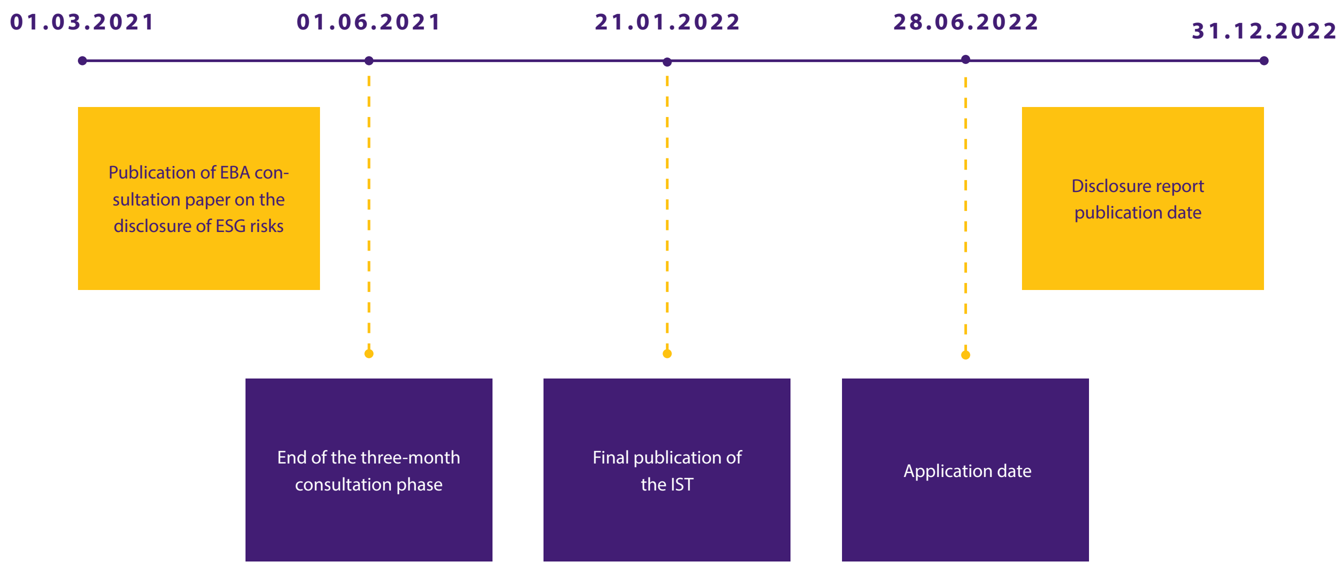
Challenge

Accurate, complete and consistent disclosure requires knowledge of the reporting system, ESG, risk governance and IT. Central coordination and communication is decisive in order to collect the necessary data from the different departments. Timely publication can be affected by late publication of new technical information or requirements.

Solution

- Reporting forms (level 1): targens supports you with report creation and the reporting processes. With our knowledge of ESG vocabulary and our expertise in reporting methods, it is quick and easy to complete the ESG reporting forms. In addition, we take care of validation using the upstream systems for you.

- Integration and automation (level 2): targens supports you using reporting software (Abacus360 for example) to create automated reporting. Our services include support for data exchange and data connection and for proper classification of products. Addition of testing and validation of results.



Reporting frequency

- 2022 annually (publication date: 31.12.2022)
- From 30.06.2023, semi-annually (on 30.06 and 31.12.)
- Phase-in period or transition period until June 2024

Competence/Project management:

Regulatory reporting department

Regulatory Reporting Competence Centre:

With the Regulatory Reporting Competence Centre, banks are prepared for all regulatory requirements and receive competent support to implement their reporting efficiently and sustainably.

Our competences and success factors

- Unmatched network of experts and IT developers
- 30 years' of experience in consulting, project development and technology consulting
- Extensive expertise in data processing in banking, notably in reporting
- Integrated introduction of ESG disclosure in an efficient control process in companies

You have questions or want more information?
Then get in touch with us!

targens

As an expert consultancy for banking, compliance and digital innovation, targens is the leading provider of consulting and software solutions. Based in Germany, Austria and Switzerland, the company has 30 years of experience in the development of internationally proven compliance services for financial institutions with futuristic and disruptive technologies. Using artificial intelligence and blockchain technology to create innovative products that provide the highest possible value to our clients. With its consulting portfolio, targens supports clients in their banking and corporate management, trading activities and the safeguarding of business processes.

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