

EBA work on ESG risks and sustainable finance

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EBA's roadmap on sustainable finance

EBA Roadmap (Decembre 2022) sets out EBA's objective and approach in the area of sustainable finance and ESG

Continuity from the EBA's first action plan but also expansion of the area of work

Overall objective is to build an adequate framework for EU banks and their supervisors to mitigate ESG risks and support an orderly transition to a sustainable economy

- ensuring a thorough but proportionate application
- fostering resilience of the EU banking sector and broader economy
- facilitating convergence at EU and international levels

through a holistic and sequenced approach



Source: https://www.eba.europa.eu/eba-publishes-its-roadmap-sustainable-finance















ESG risks across the three pillars of the banking regulation: **Pillar 3** – disclosures on ESG risks

Objective: enhanced transparency on ESG risks through qualitative (E, S, G) and quantitative (E) information

Climate transition risk

Exposures to high carbon sectors

Scope 1, 2, 3
emissions

Energy efficiency of

residential and

commercial real

estate

Climate physical risk

Exposures subject to physical risk Physical location of assets, activities and collateral

Mitigating actions

Green Asset Ratio
Banking Book
Taxonomy Alignment
Ratio
Sustainable products
not Taxonomy
aligned

Qualitative information

Strategy, business model, governance, risk management framework related to ESG risks

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Implementation

First disclosures by large listed EU banks in early 2023 based on 2022 data

Phased-in approach for selected elements

Further review to expand the requirements to small EU banks









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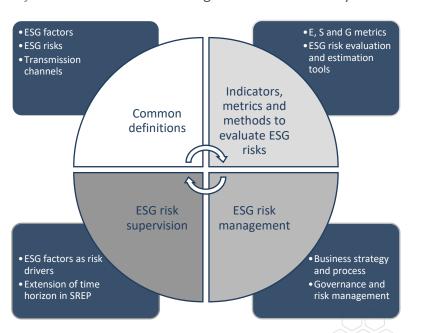






ESG risks across the three pillars of the banking regulation: **Pillar 2** – ESG risk management and supervision

Objective: ensure sound management of ESG risks by institutions and progressive integration into supervisory practices



ESG risks management by institutions:

- EBA Guidelines on loan origination and monitoring
- EBA Guidelines on internal governance and on remuneration policies

ESG risks supervision by competent authorities:

- Integration within existing SREP elements
- Longer term perspective
- · Principle of proportionality
- Phased-in approach



Further developments

EBA GLs on ESG risks management under CRD6

Review of EBA GLs on institutions stress testing and/or new GLs to cover ESG stress testing

Review of GLs on governance and remuneration



Further developments

Review of EBA GLs on supervisory review and evaluation processes

- Supervisory assessment of transition plans
- Assessment of risks
- Assessment of capital adequacy

Planned ESAs GLs on supervisory stress testing









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ESG risks across the three pillars of the banking regulation: **Pillar 1** – capital requirements for exposures subject to ESG risks

Objective: ensuring a robust prudential framework by assessing whether changes would be justified from a risk-based perspective

Principles for the analysis

- Risk-based approach resilience of the financial sector
- Holistic view Pillar 1 is part of the overall framework
 - choose appropriate tools
 - avoid double counting

Approach

- Analysis of existing mechanisms – identify what is not covered
- Consider forward-looking aspects
 - Evidence-based approach not only historical data but also potential scientific evidence

Preliminary conclusions

- Better use of existing mechanisms needed
- Targeted enhancements to the framework rather than dedicated risk-weighted adjustment factors













Standards and labels – EBA opinion on green loans and mortgages

Background: EU Commission's <u>Strategy for financing</u> transition to a sustainable economy

Focus of the EU Commission request: banks' unsecured and secured green loans to retail and SME borrowers

Four building elements of the request:

- 1. overview of green loans and related market practices
- voluntary green loan definition based on the EU Taxonomy
- measures to encourage and facilitate the uptake of green loans while ensuring the protection of retail borrowers
- 4. green loan origination practices

EBA report and opinion – delivered in December 2023

Industry survey to collect data and information on practices (83 banks from 27 countries with over 52% of total assets in EEA)

Evidence-based policy advice to the EU Commission:

- a voluntary green loan definition and a green loan
 label a pragmatic and flexible approach
- link with EuGB and Taxonomy disclosures
- embedding in public support schemes
- specific advice related to the integration of green mortgages in the MCD
- need for further work on transition finance

















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