SUSTAINABILITY RISK IN THE EU BANKING SECTOR

NEIL ESHO
Secretary General - Basel Committee on Banking Supervision (BCBS)

Addressing climate-related financial risks in the banking sector

Mitigating climate-related financial risks continues to be a key priority for banks, bank supervisors, and the Basel Committee.

The Committee's broad approach to mitigating climate-related financial risk has followed the same approach as for other more traditional risks. It began its work with the objective of better understanding the risk features of climate change and potential implications for individual banks and the broader banking system. To provide a strong methodological basis for its work, the Committee published two analytical reports in April 2021 on climate-related risk drivers and their transmission channels, and climate-related financial risks - measurement methodologies. Taken together, the high-level conclusion from those reports is that climate risk drivers can translate into traditional risk categories used by financial institutions and which are essential elements of the Basel Framework (eg credit, market, liquidity, operational, and reputational risks). The reports also illustrated how physical and transition climate risk drivers affect bank's financial risks via micro- and macro transmission channels, while also emphasising the diversity and limitations of measurement methodologies.

Building off the analytical work, the Committee is pursuing a holistic approach and looking at the best combination of policy tools covering supervision, disclosure, and regulation.

On 15 June 2022, the Committee published principles for the effective management and supervision of climate-related financial risks. These principles address a broad range of topics including corporate governance, internal controls, risk assessment, management and reporting and scenario analysis, among others. The aim of the principles is to provide a common baseline for internationally active banks and improve both banks' risk management and supervisors' practices. But, being principles, they also retain sufficient flexibility given the degree of heterogeneity and evolving practices.

The BCBS is working on a combination of policy tools to mitigate climate-related financial risks.

A number of jurisdictions have further developed the capacity of banks and supervisors to assess climate-related financial risk through scenario analysis - a tool that helps challenge assumptions made for the purpose of risk analysis by considering extreme but plausible scenarios. While still in its infancy, scenario analysis is also an important learning tool that can serve to highlight the areas where further work is needed to improve the measurement and management of climate-related financial risk. These challenges relate to scenario design, data gaps, measurement methodologies and overall risk management capabilities. Further development of capabilities in this area by both banks and supervisors offers a promising way forward to better understand potential loss exposures faced by banks, and the potential benefits of risk-mitigating actions.

With regard to work on disclosure, the Committee is very supportive of efforts to develop global standards to improve the consistency, comparability and reliability of sustainability reporting, including those of the International Sustainability Standards Board (ISSB). In parallel, the Committee is exploring use of the Pillar 3 framework to promote a common disclosure baseline for internationally active banks. As part of this work, we are considering issues such as: the availability of sufficiently granular data for both banks and their counterparties and metrics to be used from a risk management perspective. We are also collaborating closely with the ISSB to identify potential synergies between its proposals and the needs of prudential supervisors.

Work is also proceeding on the regulatory front. The Committee recently conducted a gap analysis of the existing Basel framework to identify where climate-related financial risks may not be adequately addressed in the Pillar 1 framework. This analysis highlighted the challenges associated with the measurement and mitigation of climate-related financial risks, including the time horizon of such risks relative to traditional risk categories; the inability to rely on historical data to quantify risks; current data gaps; and the high degree of uncertainty regarding the outlook. However, these significant challenges are not unique to Pillar 1 regulatory approaches, but nor are they insurmountable. Work is therefore ongoing to consider the role of Pillar 1 measures to address climate-related financial risks.

While the Committee will continue to assess and consider potential Pillar 1 regulatory measures, it will be guided by its broader goal of developing an appropriate combination of measures across regulatory, supervisory and disclosure elements to mitigate climate-related financial risks.

KERSTIN
AF JOCHNICK
Member of the Supervisory Board - European Central Bank (ECB)

Climate risks for banks - the supervisory perspective

Climate change poses an increasing risk for banks and the European financial system as a whole. From a prudential perspective, supervisors should be concerned about the extent to which banks' exposures to physical and transition risks stemming from climate-related and environmental risks (C&E risks) may affect the safety and soundness of individual entities. Such risks, which could potentially affect banks regardless of their size, complexity or business model, could also act as drivers of "traditional" risk categories such as credit, market and operational risk.

In recent years, ECB Banking Supervision has taken concrete steps to include C&E risks in its ongoing supervision. In 2020 we published a guide[1] outlining our expectations for banks' management and disclosure of such risks. In 2021 we asked banks to conduct a self-assessment in the light of the supervisory expectations outlined in the guide and to draw up implementation plans to advance their management of C&E risks. We have since conducted annual reviews to check progress on these action plans[2] as well as on banks' transparent disclosure of their C&E risk profiles.

In 2022 we conducted a climate risk stress test to more fully understand how exposed euro area banks are to C&E risks, the results of which were published in July. We are also preparing a thematic review on C&E risks to assess where banks stand in terms of their alignment with the ECB's supervisory expectations in this domain, which will be published later this year. [3]

The common message which emerges from these various initiatives on the supervisory front is that while banks are making progress in their management of C&E risks, this trend is not uniform and laggards remain in all areas. The preliminary results from our thematic review suggest that, according to their own assessment, an increasing number of banks report that they are taking actions to foster alignment with our supervisory expectations. This is an improvement on the 90% of banks which considered that their practices were only partly or not at all aligned with our expectations in 2021. However, our results also indicate that while a growing number of banks have deemed themselves to be materially exposed to C&E risks in the short to medium term, there are some that have still not performed a materiality assessment.

Our goal is to fully integrate climate-related and environmental risks in the regular supervisory cycle and treat them in the same way as any other material risks that banks face.

Concerning banks' disclosure of their C&E risks, the gap analysis in the 2022 ECB report[4] indicated that they have made clear progress in various areas compared with 2021, for example as regards governance and risk management. However, the report also highlighted that most banks still need to make significant efforts to transparently disclose their exposures to C&E risks and further improve their disclosure practices.

With regard to the stress test on climate risk, the results[5] showed that around 60% of banks do not have robust climate risk stress-testing frameworks, with many lacking accurate data and insights into their clients' transition plans. Similarly, the results showed that most banks do not include climate risk in their credit risk models and just 20% consider climate risk as a variable when granting loans.

At the same time, the experience from our broad engagement with banks concerning their management of C&E risks in recent years suggests that they are cognisant of the challenge at hand. Some have already adopted state-of-the-art governance and risk management practices and, in more than 80% of cases, they intend to complete the actions set out in their plans before the end of 2023. We thus see it as reasonable that banks can be fully compliant with all our expectations by the end of 2024 at the latest.

Our goal is to fully integrate C&E risks in the regular supervisory cycle and treat them in the same way as any other material risks that banks face, eventually influencing their Pillar 2 requirements.

[1] ECB Banking Supervision (2020), "Guide on climate-related and environmental risks", November.
[2] ECB Banking Supervision (2021), "The state of climate and environmental risk management in the banking sector", November.
[3] ECB Banking Supervision (2022), "Thematic review on climate-related and environmental risks, 2022", presentation by the SSM Climate Risk Coordination Group, 18 February.
[4] ECB Banking Supervision (2022), "Supervisory assessment of institutions' climate-related and environmental risks disclosures", March.
[5] ECB Banking Supervision (2022), "2022 climate risk stress test", July.

TOMOKO AMAYA
Vice Minister for International Affairs - Financial Services Agency, Japan (JFSA)

JFSA's approach to climate-related financial risk management

Financial institutions are inevitably exposed to climate-related financial risks. While the typical time horizon of financial institutions' risk management and capital planning is two to three years, climate-related financial risks are likely to materialize over a much longer time horizon, and some may materialize over a few decades or more. This suggests that financial institutions need to take more dynamic approaches in risk management considering the mid- to long-term impact of their managerial decisions, changes in their business strategy as well as changes in clients' business models. Having the capacity to absorb the loss from the existing portfolio is not enough. Sustainability of earnings is essential for resilient business in the long run.

In particular, the resilience of banks' business very much depends on how their corporate clients respond to climate change related risks and opportunities. Clients' delayed response means loss of business and increase in credit risk for banks, whereas clients' successful transition brings increased business opportunity and decreased credit risk to banks. Therefore, it is important for financial institutions to actively engage with their corporate clients and support them in addressing the challenges posed by climate change. Risk management and client engagement are both sides of one coin.

Based on this idea, the FSA published the "Supervisory Guidance on Climate-related Risk Management and Client Engagement (Guidance)" on July 12. The guidance is non-binding and provide viewpoints of supervisory dialogues between the FSA and financial institutions.

For example, with regards to "strategies and governance," the FSA urges financial institutions to fully understand the risks and opportunities of climate change both for their clients and themselves, and to develop strategies for supporting their corporate clients in addressing the challenges posed by climate change, thus enhancing the robustness of their own business and contributing to the transition to net-zero.

Viewpoints also include "identification and assessment of risks and opportunities both for own business and clients," "support for clients' transition and other response to climate change," "management of climate-related financial risks," and "provision of information to stakeholders."

Risk management and client engagement are both sides of one coin.

In addition, the Guidance presents approaches and cases of engagement with clients especially for the use of regional banks as reference. Financial institutions are encouraged to accumulate their knowledge of climate change and understand the effect on clients of the evolution in technologies, industries and natural environments caused by climate change. They are also encouraged to provide support to clients, such as provision of consulting and solution-delivery services, provision of funds for growth, and provision of area-wide support with enhanced collaboration among stakeholders.

Let me present one of the cases in the Guidance.

Corporate clients, especially SMEs, often do not recognize the potential impact of the transition to net-zero, including the impact of decarbonization on the local economy and the impact of supply chain restructuring on their own business. Therefore, one regional bank proactively offers support to its corporate clients based on its own analysis.

The bank first narrowed down the target industries to the automobile, steel, and chemical industries based on their view on the local economic structure and analyzed the potential impact that climate change may have on the current advantages of the region as a center for those industries. The bank further assessed the impact on clients sector by sector. For example, risks increase for one client as it is affected by the shift to EVs, while business opportunities increase for another, which is engaged in the maintenance and repair of plants.

Then, the bank developed an action plan listing solutions for their clients and the regional economy to benefit from potential opportunities. Based on the plan, the bank has been having discussions with clients to identify their needs and offering solutions, such as provision of funds and human resource matching services.

Financial institutions' initiatives of proactive engagement with customers have already begun. Furthermore, for industrial sectors involving multi-layered supply chains, such as the automobile industry, a successful transition requires communication and collaboration among all entities from top tier makers to small and medium size suppliers, from big banks to small cooperative financial institutions. In order to facilitate such communication, a local office of the FSA, in collaboration with a local office of a relevant ministry, organized a meeting of representatives from an automobile maker, top tier suppliers and financial institutions, from big banks to small ones.

The FSA urges financial institutions to engage with their clients and also facilitates such engagement.

JOSÉ MANUEL CAMPA

Chairperson - European Banking Authority (EBA)

Sustainability risks: work in progress

The growing importance of Environmental, Social and Governance (ESG) risks for the EU banking sector calls for assertive actions by all stakeholders, including financial institutions and supervisory authorities. In view of the potential for ESG risk factors to affect all traditional categories of financial risks to which institutions are exposed, ranging from credit risk to market risk through concentration and reputational risks, a holistic approach to managing these risks is warranted. We need to enhance the measurement, disclosure, risk management and supervision of these risks. We also need to assess the prudential treatment of such exposures.

Firstly, institutions need to enhance the measurement and disclosure of ESG risks. Starting from 2023 credit institutions will be required to implement clear disclosure of ESG risks on the basis of disclosures standards specified by the EBA[1]. The proposed granular templates and instructions should help institutions measure and report some of these risks and facilitate access to meaningful and comparable information, allowing stakeholders to assess institutions' ESG performance and risk profile. In this regard, while institutions should enhance their data collection and aggregation processes as soon as possible to meet their disclosure (but also risk management) obligations, they should also gradually benefit from more reliable information from their clients and counterparts, thanks to the EU and international efforts to develop an ambitious ESG disclosure framework.

In the EU, the Corporate Sustainability Reporting Directive and the EU Taxonomy are expected to improve significantly the data provided by non-financial corporates, which will among other things allow institutions to calculate and report their green asset ratios. At the international level, the work undertaken by the International Sustainability Standards Board to develop a global baseline of sustainability-related disclosures should also contribute to better availability of data provided by banks' non-EU counterparts. In this context, the EU emerging standards can help establish best practices and drive progress at international level on sustainability risks disclosures.

We need to enhance the measurement, disclosure, risk management and supervision of ESG risks.

Secondly, institutions need to further embed ESG risks into their business strategies, risk management frameworks and internal governance arrangements. The explicit integration of ESG risks into various EBA Guidelines – on loan origination and monitoring[2], internal governance[3], remuneration policies[4], and supervisory review[5] – indicates the overarching nature of ESG considerations. More guidance will follow on risk management, potentially covering requirements around institutions' transition plans and stress-testing practices.

The recent publications of the Bank of England and ECB climate stress tests results confirm the need for banks and supervisors to continue building their capabilities to identify and manage these forward-looking risks. These exercises constitute key tools to improve banks' climate risk modelling, pushing them to engage with their counterparties to understand better their climate exposures and helping them, and supervisors, sizing the risks. Internally, banks should continue to enhance their climate stress testing capacities. Ultimately, banks are expected to incorporate considerations on ESG risks into their regular business and risk management.

Last but not least, environmental risk drivers should be properly captured into the prudential regime. This should be grounded in a solid risk-based approach, as prudential regulation should remain geared towards ensuring the safety and soundness of institutions. The EBA's discussion paper[6], which explores the relevance of targeted amendments to the existing prudential requirements to capture these risks more accurately, represents the first step in the assessment of the appropriate prudential treatment of exposures subject to environmental risks and impacts. Here again, a holistic regulatory approach is needed as on-going developments under the Pillar 2 framework, macroprudential capital buffers and accounting rules should be taken into account to design the best prudential response to environmental risks.

The management of ESG risks continues to be work in progress. Progress has been made but more is needed. EBA will continue its efforts to provide a robust framework for identifying, disclosing and addressing ESG risks by institutions and supervisors. It will also monitor these risks in the EU banking sector, including through dedicated and regular stress testing exercises.

[1] See EBA Implementing Technical Standards
[2] [3] [4] [5] See EBA Guidelines
[6] See EBA Discussion Paper

STEFANO CAPPIELLO

Director General of Regulation and Supervision of the Financial System - Ministry of Economy and Finance, Italy

Climate and environmental risks: mind the (data) gap

Climate change is a reality that becomes every day more tangible, and thus are climate and environmental (C&E) risks for banks. The regulatory and supervisory initiatives in the field are hence absolutely urgent, starting from the Banking Package 2021, where the Commission proposes to reinforce the ESG disclosure requirements and introduces new provisions on identification, management, stress testing and supervisory review of these risks. Meanwhile, banks have been increasingly called upon to meet supervisory expectations with respect to disclosures, capital planning and governance (ECB Guide; Bank of Italy Expectations), to prudently increase the level of awareness and preparedness. Recently, the ECB thematic review's preliminary findings has shown that most banks have started to adapt their practices to incorporate C&E risks into their daily business. However, the results of the first climate stress test attest how much work still needs to be done.

The transition towards a greener and more sustainable economy could represent not only a critical point but also as an opportunity, amounting on average to $2.3tn of new investments per year globally. Under the 2021 Italian Presidency, the G20 set forth several strategies to finally achieve climate neutrality by 2050, and identified an ambitious policy mix made of investments in sustainable infrastructure and innovative technologies, investments that promote decarbonisation and the circular economy. Notably, the Commission has estimated that €650 bn per year of investments are needed until 2030 to meet the so-called twin transitions (a greener and more digitalised EU economy), of which at least €520 billion per year should be devoted only to the green transition. This aggregate exceeds by far public investment programmes and private investments will therefore be essential over the coming years to meet the environmental challenge. Banks will play a pivotal role in channelling these resources and shaping the transition towards a greener economy. This will require them to incorporate climate risks – and their long-term nature – within their lending and investment choices, enrich the offer of sustainable financial instruments, and increase the availability, reliability and comparability of climate-related data.

Complete, verifiable, comparable data are key for banks to play their role in the green transition.

To ensure the proper management of C&E risks and, at the same, the efficient allocation of private financial resources, one of the most compelling challenges hinges on data availability and comparability, and the need to work out data gaps and inconsistencies and avoid "adverse selection" problems. Regulators and supervisors require banks to carry out analysis and provide data. However, borrowers themselves are not fully aware yet of what information are relevant, and need to be produced for the purpose of getting access to banking and markets' finance. This, in turn, can negatively affect the banking sector in playing its crucial role of assessing and financing companies in the transition to a greener economy. Therefore, extensive standardised disclosure standards on sustainable activities, like the recent Corporate Sustainability Reporting Directive (CSRD) aims to introduce, will be crucial.

Even more so, to ensure a *complete, verifiable, and comparable* data set, it would be necessary to go beyond the scope of the CSRD and set minimum disclosure standards also for SMEs, either through industry-led initiatives or by regulatory measures. This would serve to steer SMEs in their preparedness to meet banks' requests for ESG material information, while being careful at the same time to curb compliance costs at a manageable level, considering the balance sheet of SMEs. For this purpose, the establishment of an EU single access point (ESAP) within the Capital Markets Union, for companies' financial and sustainable investment-related information goes in the right direction, offering investors and lenders easily accessible, comparable and digitally usable information. It is advisable to drive the 'upward convergence' even further, by providing guidance to economic operators on financial sector's and banks' expectations for them to commit to net zero and publish supporting transition plans in line with best practice.

The shift towards a greener, more sustainable economy will happen when economic operators and market players fully embrace it. However, for this to happen we need a collective effort, where policy makers, regulators, supervisors, banks, borrowers, and market forces work together to set the right preconditions – among which data are crucial – for the whole financial and productive ecosystem to work efficiently and effectively towards this goal.

DIONY
LEBOT
Deputy Chief Executive Officer -
Société Générale

European banks are catalysts for their clients' transition

At Société Générale, we welcome the EU's sustainable policies and goal to reduce 55% of CO_2 emissions by 2030 and achieve neutrality by 2050. We support the transition to a low-carbon and resource-efficient economy, in line with the Sustainable Development Goals and the Paris Agreement. Our engagement led us to be a founding signatory of the Net Zero Banking Alliance, a commitment that reinforces others, such as the Equator Principle, the Katowice Commitment, and the Principles for Responsible Banking.

We voluntarily participated in several exercises of European and national bodies, starting from 2016 when we collaborated with the ACPR to conceive robust methodologies around climate-risk. In continuity, the rolling out of the ECB's guidelines and recent large-scale climate stress test provided a common and consistent framework to get ready.

More is yet to come for EU banks. In 2023 we will publish the ESG indicators requested by the EBA for Pillar 3 disclosures. There are also questions on whether the prudential framework review (CRR) would include ESG in the risk management framework, including SREP, ICAAP and strategic risk of non-alignment to EU regulations. Simultaneously, the BCBS has issued recommendations on ESG risks, although globally standardized prudential treatment rules are not defined yet.

This calendar puts EU banks at a cornerstone to meet EU ambitions. We fully support these policies but expect them to be completed by additional measures to support our efforts. The legislative overhaul (Fit for 55) recently voted by the EU, the update of National Energy and Climate Plans and the involvement of public and private sectors (NextGenerationEU) are all key to achieve sustainability. Our view is that financial regulation should play a role in helping the finance sector address these challenges and meet associated funding needs, which will be colossal.

The EU has first to secure sufficient financing, especially at a time when interest rates and energy prices are rising. Investment needs, €520bn p.a. to 2030 for decarbonization and other environment goals, require that additional prudential constraints on banks' balance sheets are reasonable and that the Capital Markets Union becomes concrete.

Europe is at the forefront of climate risk regulations, with an ambitious agenda to deliver.

Second, policies should not overlook transitioning economies and sectors, which cannot be qualified as "green" yet but have robust trajectories and commitments to becoming greener. This is especially true for emerging economies and the most carbonated sectors with the will to transform. Our belief is that a too penalizing approach could hinder this transition. A balanced regulation should remain risk-based, grounded on granular indicators as standardized as possible. Rather than the definition of fixed weightings by activity, climate-risk should become a key element of the counterparty analysis to allow a fair representation of risk in the short, medium, and long term.

Further, strictly regulating banks on their ESG framework carries the risk of fragmenting the market between green EU banks strongly constrained, vs. capital markets escaping strict regulations. Measures announced on the ECB's CSPP purchases, and the collateral framework go in the right direction to ensure that climate does not remain a question for banks only. We should also ensure that transition remains discussed globally, as: (i) there might initially be a diversification problem (about 5% of the economy is taxonomy-aligned), (ii) other financial actors could replace EU banks' funding.

If not, an issue would be that international flows could divert from EU banks, at a time when the EU needs competitive banks to transform its economy. Indeed, banks are the dominant source of EU funding, notably for SMEs and the greening of the residential housing stock.

Finally, we should keep in mind that finance cannot green the economy alone. The ecological transition will depend on many sectors of the economy acting together. We are proud that the banking industry is committed and acts as a catalyst for its clients' transition but being early comes with a drawback: we are faced with operational and timing constraints when the rest of the ecosystem is not ready yet. Christine Lagarde rightly indicated, "the ECB does not act in a vacuum, but rather in parallel with many other policymakers". Similarly, banks are constrained by the political agenda.

A good example of our operational constraints is data access. Data collection and processing depend on counterparties' production and disclosure of ESG data, but less than 50% of firms publish TCFD-aligned climate-related metrics. Yet, EU banks are expected to disclose information before companies' obligation to produce relevant data (CSRD) applies, between 2025 and 2029, and many companies will remain out of scope (not-listed SMEs and not-listed foreign companies).

Banks must apply unharmonized proxies and use data providers, which will not help comparability between banks and carries the risk of raising greenwashing concerns.

LAURENCE DUBOIS
Partner, Industry Leader FSI - Deloitte

European banks: the challenge around climate risk data

Since 2019, the European Central Bank (ECB) has identified climate risk as a key driver on the SSM Risk Map and climate risk is part of the SSM supervision priorities for the 2022-2024 period.

There are so far three main supervisory 'tools' for monitoring European banks' risks exposures to climate risk.

The first one is the "Guide on climate-related and environmental risk", issued in May 2020.It explains how the ECB expects banks to prudently manage and disclose those risks. European banks are expected to implement this guide in their day-to-day risk management practices and the ECB is following up with banks through the concrete review of banks' practices and action plans. A thematic review on banks' climate-related and environmental risk management practices is expected in 2022.

The second tool is the Climate risk stress test which the ECB carried in 2022; this exercise is based on a methodology and scenarios defined by the ECB and results for the 2022 exercise were published in 2022.

Finally, significant European banks are requested to progressively disclose, starting from 2023, qualitative and quantitative information on their portfolios' exposures to both physical and transition risks, as well as mitigating actions to lower those risks. This includes the Green Asset Ratio (GAR) with exposures towards Corporates in the scope of the NFRD/CSRD[1] regulation financing taxonomy aligned activities consistent with Paris Agreement goals and a Banking Book Taxonomy Alignment ratio (BTAR) including exposures toward non NFRD/CSRD corporates not assessed in the GAR.

This comprehensive approach as well as the potential need for business specific KPIs require banks to provide a significant volume of climate related data on their exposures. Data is key for disclosure requirements but also for managing risks and commitments taken by banks toward a low carbon economy.

European Banks are making considerable efforts to adapt their risk management processes and collect relevant data. However, they are currently making extensive use of proxies or external providers of data instead of data directly available in the counterparties' disclosure documentation as requested by the banking regulator and EU (Green Asset Ratio). Banks are heavily dependent on their counterparties to collect this data and while it has been difficult to make use of counterparties' disclosures to date (due to a lack of standardisation of non-financial reporting) this is set to change.

Data is key for disclosure requirements but also for managing risks and climate commitments

A first step will be achieved by the end of this year, when corporates within the scope of the NFRD regulation[2] will, for the first time, issue "alignment KPIs", according to the EU Taxonomy Regulation.

A second step will be achieved with the CSRD that will replace the NFRD. The CSRD will extend the scope of corporates that have to issue standardised non-financial reporting: all large companies[3] with two of the three criteria, all companies listed in EU regulated markets except micro-enterprises, some non-EU groups.

In practice, it means data quality is likely to improve as banks will have access to direct standardised information from their counterparties, audited by a third party. But it is likely to be a very long journey. CSRD will come into force very progressively: for PIEs on 1 January 2024, for large undertakings on 1 January 2025, for listed SMEs on 1 January 2026, and other companies in the scope as from 1 January 2028. Data related to corporates not in the scope of the CSRD and to retailed exposures (such as energy performance certificates for housing collaterals) will have to be collected on a bilateral basis

Banks will look to manage this transition period by investing in a better understanding of methodologies and model input on data from third parties, working with the whole industry to define consistent approaches to measure key climate-related indicators and organise specific data collection processes to fill the gap between the information that will be available through the CSRD standardised non-financial reporting and the scope of counterparties in their portfolios.

Providing qualitative information would be good practice, to help stake-holders understand the uncertainties around data. Indeed, the ECB expects banks "to assess the quality of any data sourced and the plausibility of meth-odologies and to provide transparency on methodologies, criteria and assump-tions", both in their internal reporting and in their public disclosures. This is likely to present a significant chal-lenge given the volume of information required but this is the price to pay to bring more transparency to the market and enhance confidence from various stakeholders in non-financial reporting.

[1] NFRD Non Financial Reporting Directiveto be replaced by the CSRD -Corporate Sustainability Reporting Directive

[2] two of the three criteria: more than 250 employees - total balance sheet above 20 M€ -turnover above 40 M€

[3] Large undertakings as defined in the Accounting Directive and transposed in each country