Nordic Financial Unions

EBA Consultation Paper - Draft ITS on Pillar 3 disclosures on ESG risks

About NFU

NFU – Nordic Financial Unions is an organization that promotes the interests of the Nordic financial trade unions in Europe. Through a high level of competence and dialogue, NFU contributes to shaping a sustainable financial sector, fundamental for job creation. Currently, NFU represents eight trade unions in the bank, finance and insurance sector in Denmark, Finland, Iceland, Norway and Sweden.

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Consultation replies:

Question 2: Do the respondents identify any discrepancies between these tables, templates and instructions and the disclosure requirements set out in the underlying regulation?

NFU welcomes the possibility to provide feedback to this consultation, and generally, the discussions surrounding sustainable finance and integration of ESG considerations.

In connection to the requirements set out in the regulation, an area that could receive more attention could be scenario analysis in the context of ESG risks.

Furthermore, when it comes to the qualitative assessment of environmental, social and governance risks, it is noteworthy that the table on Qualitative information on Environmental Risk is significantly more developed than the tables concerning qualitative information on Social Risk and Governance Risk, which are largely reduced to headlines only. This could be due to work on these aspects being less developed in general, compared to the climate and environmental considerations. Nonetheless, that also means that they are the least comprehensive to stakeholders. Hence, more detailing and increased coherence on social and governance considerations across the different legislative initiatives addressing same/similar concepts is imperative moving forward.

Question 3: Do the respondents agree that the new draft ITS fits the purpose of the underlying regulation?

We understand the intentions with the EBA´s approach in considering the various legislative files in its mandate and their interplay. In addition to the points raised in Question 2, some additional considerations to include relate to the following:

- Further coherence with the NFRD – as the proposal for the new Sustainable Corporate Reporting Directive was announced in late April 2021, followed by an empowerment to EFRAG to develop standards concerning sustainability reporting, it would be relevant for the EBA to consider these developments and reflect them in this work, also because of the data needs.

- Progress with social and governance considerations – in the consultation text, the EBA rightfully notices that the further expansion of the Taxonomy is still to take place, for the inclusion of social (and possibly governance) objectives. The narrative on these developments has changed from ´if´ to ´when´, with a first report coming out at the end of 2021. Thus, it is positive to see that the EBA will later focus on quantitative ESG disclosures, in addition to the currently proposed qualitative ones, following those developments. However, the EBA should also at that time review the currently proposed qualitative ESG disclosures. This would allow for a better alignment between the social (and potentially governance) objectives that will be prescribed with the Taxonomy Regulation – just as it has been done with the environmental disclosures in the templates and the climate/environmental goals currently in the Taxonomy Regulation.

- Data needs and competence – the data to be disclosed, with the prescribed formats, will be substantial – when it is available. This is an important consideration as high amounts of data with various quality do not always mean better understanding. The possibility to find better coherence with other legislative files requiring same/similar data will be imperative to achieve the needed effect. At the same time, it is noteworthy to mention the substantial competence needs in the field of sustainable finance – for all actors, including finance sector employees. As highlighted in the Summary Report from the stakeholder consultation on the Renewed Sustainable Finance Strategy, the learning curve will be ongoing and due attention needs to be given to that in relation to the implementation timelines.

- Remuneration - As we highlighted in our response to the EBA discussion paper on the topic, it is not only remuneration policies and variable pay that can create risk incentives, as implied. Corporate culture, non-monetary merit rating systems, aggressive sales targets and more can be significant pressure points that should be considered as well.

- Timeline – The sequenced approach that the EBA has taken is positive, also considering the different stage of development with the various files. However, almost all files have so far faced a delay, which is worthwhile to consider when planning the implementation.

Question 4: Do the respondents agree that the tables with qualitative information proposed capture properly the information that institutions should provide?

Firstly, we would encourage that the point in row 15: *Data availability, quality and accuracy, and efforts to improve data status*, included in the table on Qualitative Environmental Risk, should also be included in the Social and Governance tables, as it is vital to all three considerations.

Furthermore, the Qualitative Social Risk table should also include the International Bill of Rights (in rows 2 and 8) for better coherence. In row 4, the concerns on salient human rights issues and supply chain due diligence could be included, as well. Particularly concerning employees, social dialogue and collective bargaining would be important features to include.

Under Qualitative Governance Risk, row 4 could be extended to include prevention, in addition to avoiding, managing or mitigating conflicts of interest. Row 5 could reflect on both internal and external safe whistleblowing channels, as an important component of democracy at work.

Question 6: Do the respondents agree with the proposal included in templates 1 and 3 to disclose information on scope 3 emissions and with the transitional period proposed?

Concerning the Scope 3 emissions, while they are very important for the sustainability agenda, as rightfully mentioned data in this field is quite difficult to obtain. Analysis in the Nordic countries also confirms these observations (Nordic Council of Ministers: Assessment and reporting of environment and climate-related risks and impacts on financial markets: A Nordic Pre study available here). In the Joint Consultation on Taxonomy-related Sustainability Disclosures, we have noted that the proposal is from January 2023.

Question 7: Do respondents agree that information in terms of maturity buckets by sector proposed in template 2 is relevant to understand the time horizon of when the institution maybe more exposed to climate change transition risk?

In this context, it could be useful to take into account the recommendations from the Platform on Sustainable Finance about the dynamic of change expected to take place in sectors.

Question 10: Do respondents agree that information proposed in template 5 is relevant to understand the level of climate change transition risk and that information on exposures towards the most polluting companies is a good complement to the sectorial information included in other templates? Specific feedback is sought on possible alternative formats for the presentation of the information required in template 5. In particular, the EBA seeks feedback on whether aggregate information on exposures towards the top 20 polluting companies in the world, at EU level or at member state level, instead of company-by-company information, would be sufficient to understand how climate-change transition risk may exacerbate the exposition of institutions to credit risk. Feedback is also sought on the specific information that a template on aggregate exposures should include to be meaningful, including possible "buckets" of information on exposures (e.g. exposures towards top 5 polluting firms, next top 5 and so on, or other alternative presentations).

Company-by-company reporting might present a better picture of the overall exposures. It could also provide better clarity on the individual company´s standing.

Question 14: Regarding templates 8 and 9, do respondents consider that this template should be enriched including information not only on assets aligned with the taxonomy but also in the interest income generated by those assets? Do respondents agree with the timeline proposed and transitional period proposed for the disclosure of these templates?

In a related context, it could be useful to consider the differences to climate change mitigation and climate change adaptation themselves. One reason for this could be the proposed Climate Delegated Act (Taxonomy Regulation), where only enabling activities, from an adaptation perspective, can for now count their turnover. This difference in treatment can affect both the reporting and disclosure in the future.

Question 15: Specific feedback is required from respondents on the way template 10 is defined, and on whether there is additional information that should be added. Feedback is sought on alternative disclosure formats that may contribute to a more standardised and comparable disclosure.

Since this segment is specific to climate change mitigation, perhaps it could be useful to include the type of activity (own, enabling or transitional) that is considered, for the section related to the Taxonomy.

Question 16: Finally, respondents´ feedback on whether the draft ITS should include a specific template on forward looking information and scenario analysis, beyond the qualitative information currently captured in the tables and templates under consultation and the information required in template 4.

The need for forward-looking assessments, including a recommendation from the TCFD on using scenario analysis could be taken into account here, given also the forward-looking nature of sustainable finance in general.