



Testing the application of the EU Taxonomy to core banking products:

High level recommendations

- Antoni Ballabriga. Director Global de Negocio Responsable BBVA

EU Taxonomy and its expected application to banks

Taxonomy Regulation

Corporate Disclosure Regulation

Banks' Disclosure Regulation (pillar 3)



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Sustainability-related disclosure in the financial services sector

Regulation on sustainability-related disclosure in the financial services sector

Public consultation on the revision of the non-financial reporting directive

Fields marked with * are mandatory.

Consultation Paper



Draft Implementing Standards

on prudential disclosures on ESG risks in accordance with Article 449a CRR

Objectives of the report

Provide a high-level feasibility assessment of the EU Taxonomy to core banking products

- Survey amongst 25 banks
- Assess internal frameworks
- Mobilize product teams
- Identify key challenges and solutions

Share best practice and develop case studies

- +30 case studies on core banking products including:
 - Commercial lending
 - Retail and SME lending
 - Trade and Export finance
 - Other products
- Across key sectors
 - Real estate
 - Energy
 - Manufacturing
 - Forestry
 - Etc.

Issue recommendations based on the project findings

- Recommendations to:
 - Banks
 - Regulators
 - Policy makers
 - Other stakeholders
- Complement UNEP FI Principles for Responsible Banking and EBF Sustainable Finance strategy
- Align with EC delegated acts on EU Taxonomy
- October/November 2020

26 banks testing application of the EU Taxonomy

Banks

- ABN AMRO
- Barclays
- BBVA
- BNP Paribas
- BPCE
- CaixaBank
- Credit Agricole
- Credit Suisse
- Danske Bank
- Deutsche Bank
- FMO
- ING
- Intesa Sanpaolo
- Jyske Bank
- KB Financial Group
- Natixis
- Nordea
- OP Financial Group
- Piraeus Bank
- Santander
- SEB
- Société Générale
- Standard Chartered
- Swedbank Group
- UBS
- UniCredit

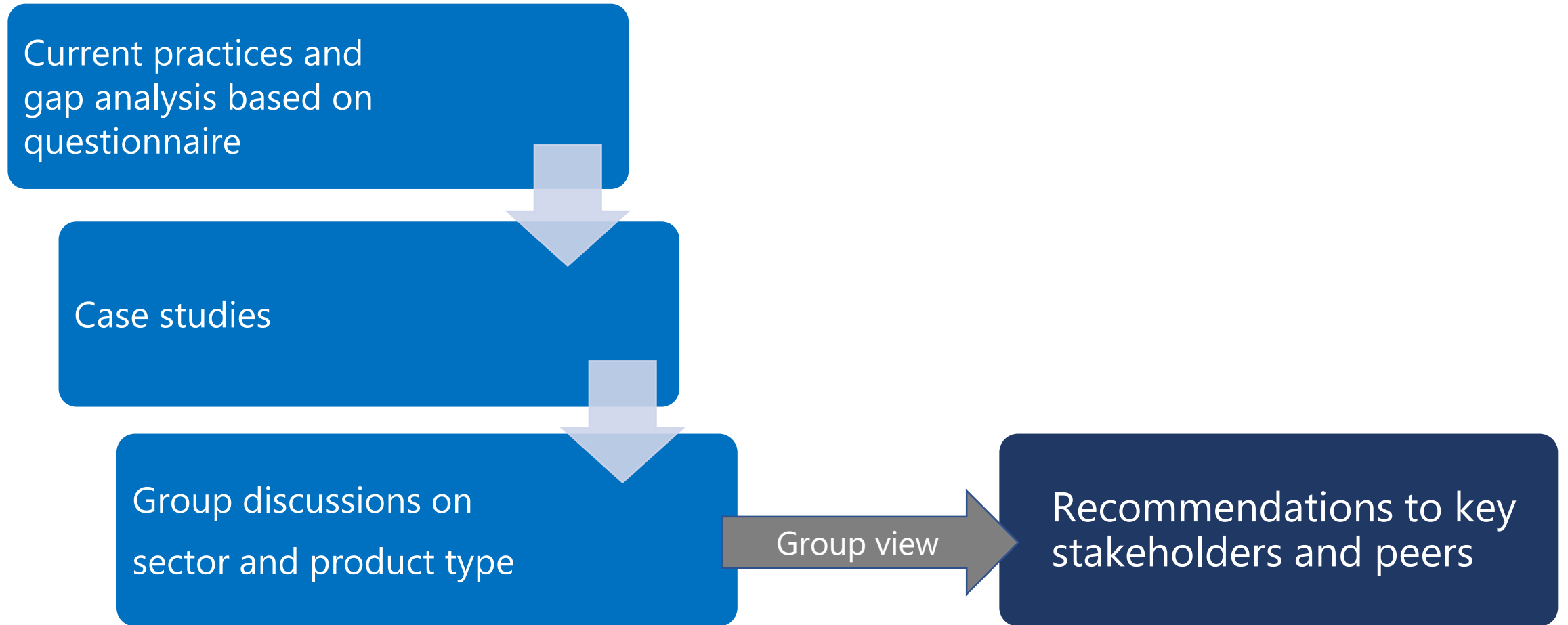
Banking Associations

- ABI (Italian Banking Association)
- Febelfin
- Finance Denmark
- Finance Norway
- Finance Latvia
- French Banking Federation
- Swiss Banking Association
- UK Finance

Observers

- European Banking Authority
- European Commission
- European Financial Reporting Advisory Group
- European Investment Bank
- European Investment Fund
- Principles for Responsible Investment (PRI)

3 Step approach to a coordinated and evidence-based industry view



26 published case studies (out of 40 in total)



- Mortgages/retail loans
- Corporate loans incl. general purpose loans and loans with UoP
- SME loans
- Green bonds
- Syndicated credit facility, RCF
- Sustainability linked loans
- Export finance guarantee, project finance
- Trade finance guarantee, supply chain finance



Strictly aligned¹ : 0
Aligned with assumptions: 7
Partially aligned: 8
Not aligned or not aligned yet: 4
Inconclusive: 7

¹no assumptions, all data available



Real estate
Transportation
Manufacturing
Forestry
Energy
Telecoms



EU based (75%)
Non-EU (25 %)

Key benefits of applying the EU Taxonomy

- **Levelling the playing field in the banking industry**, reputational enhancement, i.e. “reducing greenwashing”
- A homogenous and **rigorous evaluation of clients’ environmental performance**
- **Supporting bank-to-client engagement** efforts and bringing direction and confidence to banks’ clients
- **Increased business opportunities** and potential increased demand for sustainable finance products
- Boosting the **availability and quality of corporate data for sustainability**
- Supporting **harmonisation of reporting**

Key challenges of applying the EU Taxonomy (1/2)

1. Unspecified use of proceeds	Classifying and assessing the transaction accurately according to business activities.
2. Data related challenges	<p>Data availability, quality, granularity, comparability, standardization, relevance, verification and handling time, particularly for:</p> <ul style="list-style-type: none">• Retail clients and SMEs : complexity, lack of resources, expertise and incentives.• Non-EU based asset: lack of regulatory alignment and incentives.• Do No Significant Harm and social safeguards (DNSH) and Minimum Social Safeguards (MSS): lack of evidence of alignment, insufficient granularity.
3. Operational challenges	<ul style="list-style-type: none">• Assessment and classification processes• Linking EU Taxonomy classification by economic activities to clients' business activities• Use of NACE classification differs from existing practices and existing classification schemes; Application of NACE at single entity level;• Increased documentation, monitoring and time necessary to complete; monitoring use of proceeds.• IT infrastructure: Adaptation of internal information processes: cost of development of IT tools, lack of common nomenclature necessary for data collection and automation.

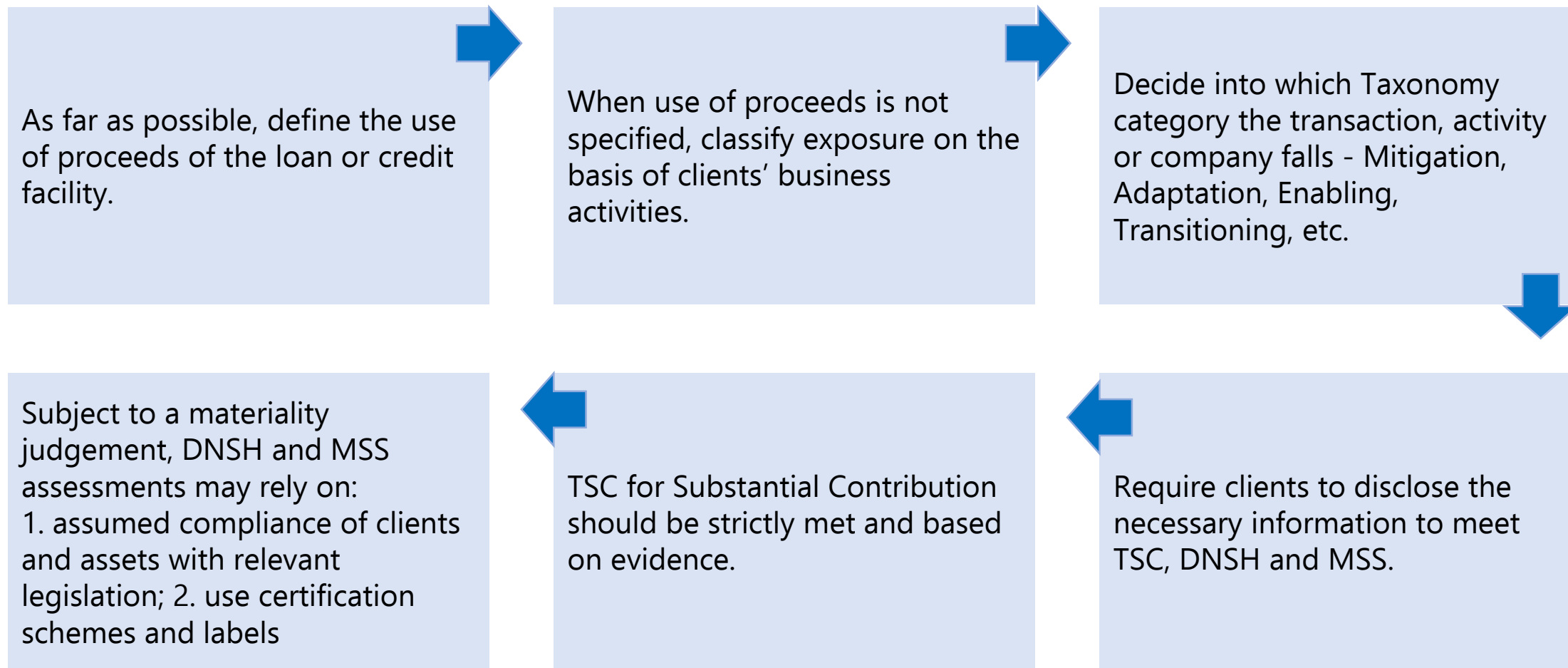
High level recommendations 1/2

Audience	Recommendations
Legislators and regulators should:	
Recommendation 1	Take into account the specificities of core banking products which may limit a full application of the EU Taxonomy.
Recommendation 2	Ensure consistency and compatibility/comparability of criteria between the EU Taxonomy and other applicable legislation and regulations, including at national level.
Recommendation 3	Seek global alignment of taxonomies, facilitate international data collection and provide comparability mechanisms of criteria for applicability of the EU Taxonomy beyond EU borders.
Recommendation 4	Consider and seek to address the timing mismatch between corporate data availability and banks' ability to apply and disclose against the EU Taxonomy.
Recommendation 5	Facilitate the collection and handling of data, through the development of tools to facilitate the application of the EU Taxonomy.

High level recommendations 2/2

Audience	Recommendations
Owners of standards and frameworks, labels and certification schemes should	
Recommendation 6	Clarify alignment with the EU Taxonomy.
Banks should	
Recommendation 7	Start methodical data collection for taxonomy-relevant information as part of new origination, on a best effort basis, based on internal strategy and priorities.
Recommendation 8	Devise industry guidelines for the implementation and application of the EU Taxonomy to core banking products, in conjunction with relevant industry bodies.

6 steps to enhance practical application



Phase II 2021



Workstream 1



Product guidelines and reporting templates

Recommendation 8

Workstream 2



Technical collaboration with EU Platform SG5

Banking products and data:
Recommendation 8 & 5

Workstream 3



TSCs piloting

Adaptation, other environmental objectives, harmful taxonomy, social Taxonomy, disclosure requirements etc.

Workstream 4



Innovation and other uses



finance
initiative



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