

## Sustainability Blog

By PwC Deutschland | 12.01.2024

# How transparent are European Banks? Highlights from the ECB's Assessment of European Banks' ESG Disclosures

**The analysis emphasises a need for improved forward-looking disclosures, detailed executive descriptions, and enhanced handling of social risks.**

**In a groundbreaking move, 107 banks disclosed detailed ESG information under Pillar 3, revealing risks and mitigations for the first time. The ECB's analysis exposed challenges, including data quality issues, format errors, and completeness gaps. Notably, 27 banks corrected information post-cutoff, yet 24 still have data quality issues. The analysis emphasises a need for improved forward-looking disclosures, detailed executive descriptions, and enhanced handling of social risks. Despite challenges, 25 % of banks corrected information post-review, highlighting ongoing efforts toward ESG transparency.**

On 31 December 2022, banks disclosed comprehensive information on physical and transitory risks and mitigating actions within the EBA ITS on ESG disclosures reporting templates on environmental, social and governmental risks under Pillar 3 for the first time. The ECB has collected and structured the information from 107 banks on this topic and published the main results and selected.

However, the requirements under Art. 449a CRR were not the only Pillar 3 requirements which were analysed by the ECB. The capital ratio, leverage ratio and liquidity ratios were also analysed. It was found that 13 banks have corrected some of the key ratios and 22 banks have corrected the information on the credit risk template after the first disclosure of the report. One of the errors was that the LCR was not published as a 12-month average but as a point in time value in the Key Metrics template. Furthermore, banks have changed the order of the row in the EU CQ5 template.

Another finding of the ECB was that 27 banks corrected information within the ESG risk quantitative templates during the cut-off date from the reconciliation exercise.

After the cut-off date some data quality issues still remained for a total of 24 banks for findings in the ESG risk quantitative templates.

With regards to ESG risks, banks disclosed both qualitative and quantitative information. In terms of quantitative information, the ECB's analysis is primarily based on templates 1, 2, 4 and 5, which contain information on energy efficiency values for real estate collateral, exposures to the top 20 carbon-intensive companies, exposures subject to physical risk and exposures by sector including information on Scope 1, 2, 3 emissions. However, information on Scope 1, 2, 3 emissions do not have to be disclosed until 30 June 2024.

The granularity of the data was particularly noted in the qualitative disclosures. The following points were emphasised:

- A need for improvement in the disclosure of forward-looking information, e.g., on plans for business models, strategy, and targets in the medium and long term.
- A necessity for more detailed descriptions of the role of Executive Board members in the allocation of certain tasks and responsibilities.
- A requirement to enhance the information on social risks. More information should be added on how internal capacity is built to manage these risks, how social risks are integrated into internal reporting

frameworks and which metrics are used to determine social risks in the remuneration policy.

- A need for an improvement in the processes for identifying, assessing and monitoring ESG-sensitive activities and exposures. In particular, the transmission channels should be covered and a link to existing risk types should be established.
- A lack of quality of disclosed information on internal guidelines and scoring through stress tests, scenario analyses and tools for assessing ESG risks on capital and liquidity.

In terms of quantitative disclosures, low data quality and a difference in the published values are particularly noticeable. This limits an effective comparison of the templates of different banks. Here are some examples mentioned by the EBA:

**Format errors in field contents:** In Template 2 some banks mixed-up the units in the columns o (€) and p (%), resulting in an incorrect disclosure and a format error.

**Completeness:** Some banks omitted to report all rows of the templates or did not report certain templates at all.

**Consistency:** Some sums of breakdowns, the figures did not equal the total sum. Some metrics and calculations were not correctly understood, such as the weighted average maturity or the definition of geographical areas. This led to differences in data among banks and data granularity.

Furthermore, the EBA has identified that due to the use of different data providers for determining the Top-20 Polluters, a direct comparison of this data is not possible. Given the absence of guidelines mandating the use of a data provider specified by the EBA, this discrepancy will persist for the upcoming reporting dates.

Overall, 25 % of the banks had to correct their published information in the quantitative templates following the supervisory review. Even after the reconciliation exercise, there are still problems with 22 % of the bank's disclosures (of which data quality problems and formatting problems).

Below are some key facts extracted from the disclosed data as disclosed by banks for the individual templates for Pillar 3 disclosure of ESG risks.

Do you have questions about ESG, Pillar III, the DPM or do you need support with the preparatory measures for implementing or validating the reporting forms? Please feel free to contact us at any time.



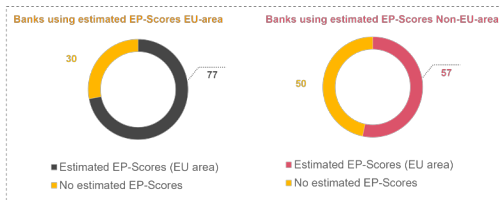
## 12 banks

disclose CCM information in Template 1



## 41 banks

disclose Scope 1, 2, 3 GHG-Emissions  
of which 26 disclose Scope 3 GHG-Emissions



## 87%

of the total gross carrying amount in EU area) has no EPC-Label



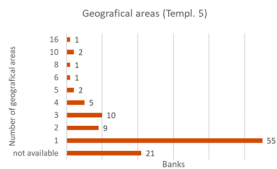
1,56%

(on average) of the total gross carrying amount is towards the Top 20 Polluter the total gross carrying amount (column a)



3 banks

Disclose CCM information



5%

of the total gross carrying amount related to chronic risks



11%

of the total gross carrying amount related to acute and acute & chronic physical risks

### Also interesting:

- [PwC ESG Pillar III Disclosure Study \(German\)](#)
- [ECB review of disclosures on ESG risks \(April 2023\)](#)
- [Sustainable Finance](#)
- [Sustainability consulting](#)
- [Von Net Zero zu Nature Positive – warum sich der deutsche Finanzsektor jetzt mit Biodiversität beschäftigen sollte](#)

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### Keywords

[ESG](#), [Sustainable Finance \(SF\)](#)

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