



EBA REPORT

ADVICE TO THE COMMISSION ON KPIS AND METHODOLOGY FOR DISCLOSURE BY CREDIT INSTITUTIONS AND INVESTMENT FIRMS UNDER THE NFRD ON HOW AND TO WHAT EXTENT THEIR ACTIVITIES QUALIFY AS ENVIRONMENTALLY SUSTAINABLE ACCORDING TO THE EU TAXONOMY REGULATION

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Contents

List of figures	5
1. Executive summary	7
2. Background and rationale	8
ESAs Coordination. Liaison with other EU bodies and with relevant stakeholders	9
Content of the EBA advice	9
Measures to facilitate quantitative disclosure	10
EBA policy work on ESG disclosures	10
3. Advice for credit institutions	11
3.1 Scope of application of the disclosures	11
EBA advice to the Commission	12
3.1.1 Assets/exposures according to the balance sheet under the prudential scope of consolidation	13
EBA advice to the Commission – Balance sheet according to the prudential scope	14
3.1.2 Relevant KPIs to be disclosed by credit institutions	14
EBA advice to the Commission – Relevant KPIs for credit institutions	16
3.1.3 Economic activities to be included in ESG disclosures – Types of financial instruments	17
(i) Green asset ratio (on-balance-sheet exposures)	17
(ii) Off-balance-sheet exposures	19
EBA advice to the Commission – Types of financial instruments to be considered	19
3.1.4 Economic activities to be included in the disclosures – Types of counterparties	20
EBA advice to the Commission – Types of counterparties	20
3.1.5 Economic activities to be included in ESG disclosures – Location of the exposures	22
EBA advice to the Commission – Location of the exposures	23
3.2 Quantitative disclosures, KPIs and methodology	23
3.2.1 Definition of KPIs for taxonomy-aligned exposures (including green asset ratio) and methodology	24
EBA advice to the Commission	25
3.2.2 Green asset ratio (GAR)	25
(i) Green asset ratio for lending activities and equity holdings with non-financial corporates (NFC) subject to NFRD disclosure obligations	26
1) Green asset ratio: methodology for loans and advances – Non-financial corporates subject to NFRD disclosure obligations	27
2) Green asset ratio for debt securities – Non-financial corporates subject to NFRD disclosure obligations	30
3) Green asset ratio for equity holdings – Non-financial corporates subject to NFRD disclosure obligations	32
4) GAR on total financing to NFC subject to NFRD disclosure obligations (lending plus equity holdings)	34
(ii) Green asset ratio for lending activities, equity holdings of financial corporates	35
(iii) Green asset ratio for retail exposures	37
1) Residential real estate lending	38

2)	Retail - Credits for consumption	42
3)	Retail – other considerations	43
(iv)	GAR for exposures to NFC not subject to NFRD disclosure obligations (including small- and medium-sized enterprises – SMEs)	43
(v)	GAR for loans and advances financing public housing	46
(vi)	Other on-balance-sheet exposures –Reposessed real estate collateral	47
(vii)	TOTAL GAR	48
3.2.3	KPIs for off-balance-sheet exposures	49
(i)	Green ratio for financial guarantees of corporates subject to NFRD disclosure obligations (FinGuar KPI)	49
(ii)	Green ratio for assets under management (AuM KPI)	50
3.2.4	KPIs for services other than lending – Fees and commissions (F&C KPI)	51
3.2.5	Other disclosures: trading portfolio	52
3.2.6	Timeline for the disclosures	53
(i)	Timeline for the disclosure of KPIs related to exposures or services to corporates subject to NFRD disclosure obligations (GAR, FinGuar KPI and AuM KPI, F&C KPI, Trading KPI)	53
(ii)	Timeline for the disclosures related to exposures to corporates not subject to NFRD disclosure obligations, including SMEs, and to households	54
(iii)	Date of application of the disclosures	55
3.2.7	EBA Advice to the Commission – Quantitative disclosures	55
	EBA advice to the Commission – Quantitative disclosures	55
4.	Advice for investment firms	62
4.1	Quantitative disclosures, KPIs and methodology	62
4.1.1	Scope of the disclosures	62
	EBA advice to the Commission	63
4.1.2	Investment services and dealing on own account	64
(i)	KPIs: assets	65
(ii)	Investee companies considered	65
(iii)	Investment instruments considered – Eligible assets	66
(iv)	Calculation methodology	66
	EBA advice to the Commission	68
4.1.3	Investment services and activities not dealing on own account	69
(i)	KPIs: revenues (fees, commissions and other monetary benefits)	70
(ii)	Clients considered	70
(iii)	Calculation methodology	70
	EBA advice to the Commission	71
4.2	Further considerations	72
5.	Advice on qualitative disclosures	74
	EBA advice to the Commission – Qualitative information	76
6.	Policy recommendations and other considerations	77
6.1	Policy recommendations	77
6.1.1	Continue to take actions to create an enabling disclosure and data framework	77
6.1.2	Aim for international taxonomy standards or minimum criteria and developing an equivalence framework	78
6.1.3	Extend the scope of the Taxonomy to enable more encompassing disclosures	79



6.1.4	Consider introducing a review clause in the delegated act	80
	EBA advice to the Commission	80
6.2	Role of the Taxonomy for the banking sector and interlinkages with other policy developments including EBA mandates	81
7.	Costs to banks and investment firms	85
7.1	Credit institutions	85
7.1.1	Key challenges and costs of KPIs for taxonomy alignment	86
7.1.2	Questions on specific KPIs and counterparties	89
7.1.3	Additional information about the portfolio composition	94
7.2	Investment firms	95
7.2.1	Key challenges and costs of KPIs for taxonomy alignment	95
	ANNEX III – Aggregate coverage of KPIs proposed for credit institutions	98
	Annex IV - Other feedback from the industry	102
7.3	Summary of the feedback received – Credit institutions	103
7.3.1	Responses to the EBA survey	103
7.3.2	Feedback from bilateral meetings with stakeholders and the EBA workshop	106

List of figures

Figure 1: Scope of the disclosures on environmentally sustainable economic activities under Article 8 of the Taxonomy Regulation (credit institutions)	12
Figure 2: Types of counterparties	20
Figure 3: KPIs – quantitative disclosures by credit institutions	24
Figure 4: GAR Loans and advances to NFC subject to NFRD disclosure obligations	27
Figure 5: GAR total financing extended to NFC subject to NFRD disclosure obligations	34
Figure 6: GAR Loans and advances, debt securities and equity holdings of financial corporates	35
Figure 7: GAR retail exposures	37
Figure 8: GAR for exposures to NFC not subject to NFRD disclosure obligations (including small and medium-sized enterprises – SMEs (including other NFC not subject to NFRD disclosure obligations)	43
Figure 9: GAR Local government/municipalities exposures	46
Figure 10: GAR Retail exposures	47
Figure 11: KPI for financial guarantees (FinGuar KPI) - Corporates subject to NFRD disclosure obligations	49
Figure 12: Green ratio for AuM - Corporates subject to NFRD disclosure obligations	50
Figure 13: Summary of proposed KPIs for taxonomy-aligned activities, explained in this section of the document	58
Figure 14: Investments: investment services and dealing on own account	64
Figure 15: Investments: investment services and dealing on own account	64
Figure 16: Revenue (fees, commissions and other monetary benefits): investment services and activities not dealing on own account	69
Figure 17: Scoring of key challenges for the implementation of KPIs and methodologies to measure alignment with the EU Taxonomy (10 = extremely challenging, 0 = not at all challenging)	88
Figure 18: Estimated cost contribution of each factor for the implementation of KPIs and methodologies to measure alignment with the EU Taxonomy	89
Figure 19: Costs associated with different KPIs proposed	90
Figure 20: KPIs for loans collateralised by immovable property	93
Figure 21: KPI for fee and commission income: Climate change mitigation	94
Figure 22: KPI for fee and commission income: Climate change adaptation	94



Figure 23: Scoring of key challenges for the implementation of KPIs and methodologies to measure alignment with the EU Taxonomy (10 = extremely challenging, 0 = not at all challenging)	96
Figure 24: Cost contribution of various factors for the implementation of KPIs and methodologies to measure alignment with the EU Taxonomy (investment firms)	97
Figure 25: Coverage of the KPIs proposed in the advice (as a share of total EU financial assets)	98
Figure 26: GAR on EU exposures: share of different counterparties (as of Q3 2020)	99
Figure 27: EU institutions' exposures by different types, counterparties and geography as of Q3 2020	100
Figure 28: EU banks' exposures by different types, counterparties and geography as of Q3 2020	101

1. Executive summary

Regulation (EU) 2020/852¹, on the establishment of a framework to facilitate sustainable investment (Taxonomy Regulation) requires any undertakings subject to disclosure obligations under the non-financial reporting directive (NFRD)² to disclose information on how and to what extent their activities are associated with economic activities that qualify as environmentally sustainable under the same Regulation. In September 2020, the Commission sent a call for advice (CfA)³ to the three ESAs on key performance indicators (KPIs) and methodologies for the implementation of the disclosures required under Article 8 of the Taxonomy Regulation by the undertakings under their remit (credit institutions and investment firms in the case of the EBA).

This report complements the EBA Opinion on the disclosure requirement on environmentally sustainable activities in accordance with Article 8 of the Taxonomy Regulation, and elaborates on the definition of KPIs and related methodology for the disclosure by credit institutions and by investment firms of information on how and to what extent their activities are related to economic activities that are environmentally sustainable in accordance with that Regulation. It also elaborates on the EBA advice on qualitative information that institutions should disclose and on policy recommendations to the Commission, with a view to facilitating transparency and disclosure by institutions. Finally, it includes an assessment of the implementation costs and coverage of the proposed KPIs and disclosures.

¹ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (OJ L 198, 22.6.2020)

² https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/non-financial-reporting_en

³ https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/200915-sustainable-finance-taxonomy-call-for-advice_en.pdf

2. Background and rationale

1. Article 8 of the Taxonomy Regulation requires any undertaking subject to disclosure obligations under the NFRD to disclose information on how and to what extent the undertaking's economic activities are associated with economic activities that qualify as environmentally sustainable under Articles 3 and 9 of the same Regulation.
2. Corporates will have to start disclosing this information from January 2022, with disclosure reference date end 2021, for the environmental objectives of climate change mitigation and climate change adaptation. From January 2023, with disclosure reference date end 2022, they will have to start disclosing similar information for the other environmental objectives included in Article 9 of the Taxonomy Regulation: sustainable use and protection of water and marine resources; the transition to a circular economy; pollution prevention and control; the protection and restoration of biodiversity and ecosystems. Article 8 of the Taxonomy Regulation mandates the Commission to adopt a delegated act specifying the required disclosures both for financial and non-financial corporates.
3. Article 8 further states that non-financial undertakings under the NFRD shall disclose the proportion of their turnover, capital expenditures (Capex) and operating expenditure (Opex) associated with environmentally sustainable economic activities, as per the EU Taxonomy. Article 8 does not specify equivalent indicators on taxonomy alignment for financial undertakings with NFRD disclosure obligations.
4. On 15 September 2020, the Commission issued a CfA to the three European Supervisory Authorities (ESAs) on key performance indicators (KPIs) and related methodology, for the disclosure of how and to what extent the activities of undertakings under their remit, and with NFRD disclosure obligations, qualify as environmentally sustainable as per the Taxonomy.
5. In particular, the Commission asks the EBA to investigate and determine the content and presentation of relevant KPIs and associated methodology that should be used by banks and investment firms under the scope of application of the NFRD to disclose their degree of taxonomy compliance in accordance with Article 8 of the Taxonomy Regulation. The content of the advice should be sufficient to form the basis of an impact assessment for a delegated act based on the Taxonomy Regulation that the Commission will adopt by June 2021.
6. The CfA includes three specific questions that the EBA is asked to answer:
 - a. What information should banks and investment firms subject to the NFRD disclose (e.g. as part of their prudential and broader ESG disclosures) on how their financial or broader commercial activities align with economic activities identified as environmentally sustainable in the EU Taxonomy, whether carried out in-house or

- performed by third parties? Which financial or commercial activities should be included/excluded?
- b. If turnover, Opex and Capex were not considered appropriate, what alternative indicators would achieve the same purpose? What KPIs are best suited to disclose information identified in (1) above? What should constitute the numerator and the denominator for a specific KPI for banks and investment firms?
 - c. Could the green asset ratio be adapted to include taxonomy-related disclosures?
7. The EBA is asked to advise on the scope of activities/exposures that should be covered by the proposed KPIs and the green asset ratio, to assess whether all activities should be covered retroactively, or only those corresponding to the disclosure period, and to identify possible proxies until proper information on taxonomy alignment is available. The deadline to respond to the CfA is end February 2021.

ESAs Coordination. Liaison with other EU bodies and with relevant stakeholders

8. While the three ESAs will submit their advice to the Commission separately, they are coordinating their work in order to ensure consistency in their responses. The ESAs have also liaised with other EU bodies, notably with the Commission's Joint Research Centre (JRC), with the European Financial Reporting Advisory Group (EFRAG), and with the Platform on Sustainable Finance.
9. Furthermore, the EBA is asked in the CfA to engage with stakeholders and to gather qualitative and quantitative evidence to support our proposals. The EBA has intensively engaged with credit institutions. In particular, on 17 September 2020 the EBA launched a survey⁴, addressed to credit institutions, with questions relevant for the response to the CfA, including the three questions raised to the EBA in the CfA. The EBA received 54 responses to the survey. In addition, the EBA held several workshops with credit institutions and industry associations in October 2020, and collected data on the cost/benefit of the disclosures proposed through a case study shared with a sample of banks. The EBA is using all the feedback received as input for the response to the CfA.
10. Moreover, the EBA launched another survey addressed to investment firms, including the three questions included in the CfA and other questions related to the KPIs that the EBA is proposing for this type of institution, and held meetings with significant stakeholders, in order to collect relevant feedback for the part of the advice that refers to investment firms.
11. A summary of the main feedback received in these interactions is included as an annex at the end of this report.

Content of the EBA advice

⁴ <https://eba.europa.eu/eba-seeks-input-institutions-their-esg-disclosure-practices>

12. The EBA's advice provides specific KPIs and methodology for the disclosures related to the objectives of climate change mitigation and adaptation, as the screening criteria to identify taxonomy-aligned activities have been developed only for those objectives, and the disclosure requirements apply from January 2022. The advice includes, in addition, general proposals regarding the other environmental objectives, but these proposals should be revised and further clarified once the screening criteria for these objectives have been specified during the course of 2022, taking into account that the disclosures relevant for these objectives will be applicable only from January 2023.
13. In particular, the advice defines the green asset ratio (GAR) for the different on-balance-sheet portfolios and objectives and at aggregate level, a KPI for the most relevant off-balance-sheet assets (assets under management and financial guarantees) and a ratio based on fees and commissions for services other than lending and asset management. The EBA also defines templates and instructions with the quantitative information used for the calculation of the KPIs. The advice includes guidance for the disclosure of information for portfolios where disclosures are more challenging, due to the location of the counterparty (exposures outside the EU) or the variable nature of the portfolio (trading portfolio). For the trading book, a separate KPI is proposed only for credit institutions with a significant trading portfolio.
14. In addition, the EBA proposes qualitative information to be disclosed by credit institutions and investment firms that should complement the KPIs and quantitative disclosures.
15. The EBA also advises on policy considerations and recommendations addressed to the Commission on those aspects that should be considered in the future to facilitate institutions' disclosures.
16. Finally, as supporting information, the report includes a cost-benefit analysis of the disclosures proposed, and the coverage of the proposed KPIs. The analysis is based on information collected through the surveys and through a case study responded to by a sample of institutions, and on supervisory reporting data.

Measures to facilitate quantitative disclosure

17. The EBA acknowledges the challenges faced by institutions when preparing the disclosures required by the Taxonomy Regulation. The EBA puts forward in its advice several proposals to support institutions in the process of preparing these disclosures.

EBA policy work on ESG disclosures

18. When drafting this advice, the EBA has worked in parallel on its consultation paper on draft ITS on prudential disclosures on ESG risks, for disclosures required from large institutions under the scope of Regulation (EU) No 575/2013 (CRR) in accordance with Article 449a of the CRR and to fulfil the mandate to the EBA included in Article 434a of the CRR. The EBA has worked on both products in parallel in order to ensure consistency in definitions and methodologies and in those disclosures and KPIs that are common to both frameworks.

3. Advice for credit institutions

3.1 Scope of application of the disclosures

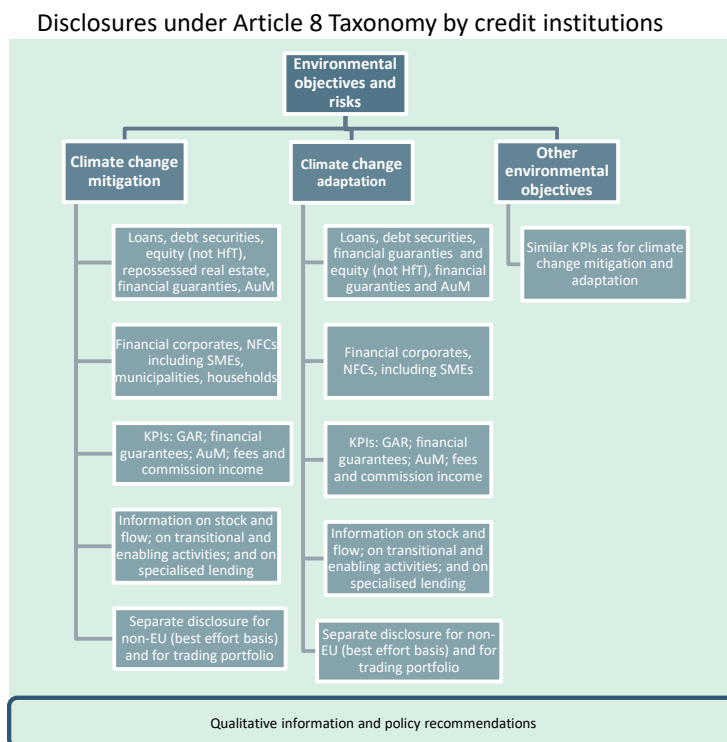
19. The Commission's CfA includes two specific questions addressed to the EBA on the type of information and KPIs that banks should disclose in order to show their level of alignment with the EU Taxonomy, and on the type of activities that should be considered in these disclosures. In particular, the following questions are raised to the EBA regarding disclosures by banks and investment firms and related KPIs.

- a. Which financial or commercial activities should be included/excluded?
- b. What should constitute the numerator and the denominator for a specific KPI for banks and investment firms?

20. This section explains the scope of application of the disclosures that credit institutions should provide in application of Article 8 of the Taxonomy Regulation and the economic activities that should be included in those disclosures. It also elaborates on what should constitute the numerator and denominator of the KPIs proposed.

21. Figure 1 below provides an overview of the scope of the disclosures, based on the arguments and conclusions that are explained in the section.

Figure 1: Scope of the disclosures on environmentally sustainable economic activities under Article 8 of the Taxonomy Regulation (credit institutions)



EBA advice to the Commission

22. When assessing which financial and commercial activities should be included in the information that banks and investment firms have to disclose under Article 8 of the Taxonomy Regulation, the EBA has considered that all financial activities (investments and lending) and commercial activities (services provided other than lending) for which the sustainability assessment can be conducted should be included.
23. Hence, where institutions' counterparties or clients will be obliged to disclose relevant information (in accordance with Article 8 of the Taxonomy Regulation), or where it is possible to assess alignment of the institutions' investing or lending portfolio with the Taxonomy through the application of taxonomy screening criteria on the activities and counterparties financed, the EBA's advice is that those activities should be included in the disclosures. Conversely, where counterparties and clients are not obliged to disclose relevant information and it is not possible to 'map' and therefore assess their economic activities according to taxonomy screening criteria, the EBA's advice is to exclude the institutions' related and economic activities from the information to be disclosed.
24. The KPIs should be defined consistently, and the EBA considers that if certain activities are excluded from the numerator on the basis that it is not possible to assess their sustainability, they should also be excluded from the denominator. Including them in the denominator but not in the numerator would mean, de facto, that they are also included in the numerator but with a

0% weight, that is, assuming that no part of the activity is associated with activities that qualify as environmentally sustainable, which is inaccurate, as in reality there is no methodology or public information that allows their sustainability to be assessed. If the information is presented this way, it will be misleading and institutions may be encouraged to improve their KPIs by purely reducing the denominator, moving their financing away from those activities. Alternatively, the EBA advises that institutions should disclose together with the value of the KPI information on its coverage (e.g. in the case of the green asset ratio (GAR), percentage of institutions' total assets included in the GAR calculation).

25.A similar approach is advised in the case of investment firms.

3.1.1 Assets/exposures according to the balance sheet under the prudential scope of consolidation

26.In the case of banking groups and the disclosure of information on taxonomy alignment at consolidated level, the financial and commercial activities to be considered can be taken into account based on the exposures and assets as per the balance sheet under the regulatory scope of consolidation, or according to the balance sheet under the accounting scope of consolidation.

27.In accordance with Article 4(28), (29) and (30) of the CRR, under the regulatory scope of consolidation, subsidiaries and participations in institutions (credit institutions and investment firms) and other financial institutions (with the exception of the insurance business) are considered in the consolidation process. Participations in those subsidiaries that are not included in the prudential scope of consolidation are reflected in the prudential consolidated balance sheet statements of the group on the asset side, as 'Investments in subsidiaries, joint ventures and associates'. Pillar 3 disclosures by credit institutions, in accordance with the CRR, including financial disclosures on, for instance, non-performing exposures or disclosures on ESG risks, as well as their supervisory reporting of financial information (FINREP⁵) are fully based on the information as registered in the prudential balance sheet.

28.Under the accounting scope of consolidation, subsidiaries that are insurance undertakings and non-financial corporations are also included in the consolidation process (FINREP ANNEX V, Part 2, 209).

29.The lending and financing activity of credit institutions to the real economy is better reflected in the institutions' balance sheets under the prudential scope of consolidation, as it includes lending and financing exposures to non-financial companies (including industrial companies) even if they are subsidiaries of the bank. Credit institutions are already required to report their prudential balance sheet under the CRR and under the FINREP implementing technical

⁵ <https://www.eba.europa.eu/risk-analysis-and-data/reporting-frameworks>

standards,⁶ and therefore calculating the KPIs based on this balance sheet does not represent an extra burden for them. If the balance sheet under the accounting scope of consolidation were to apply, banks would have to provide, in addition, information on intragroup exposures to non-financial subsidiaries in order to reflect their environmental impact through lending and financing to industrial subsidiaries, for instance, with an extra burden that is not necessary, as the relevant information is already available in the prudential balance sheet.

EBA advice to the Commission – Balance sheet according to the prudential scope

30. The disclosure of the relevant KPIs should consider the credit institutions' balance sheets and P&L accounts produced according to the prudential scope of consolidation.

31. This way the KPIs will provide specific information on the alignment with the Taxonomy of exposures and assets to non-financial subsidiaries, as they are not eliminated in the consolidation process and the equity holdings are reflected in the portfolio of investment in subsidiaries, joint ventures and associates.

32. This approach does not represent an extra burden for credit institutions, as they are already reporting their prudential balance sheets and P&L accounts to the supervisory authorities, and disclosing financial information based on the prudential balance sheet in their Pillar 3 reports. If the financial statements according to the accounting scope were to be considered, credit institutions would have to provide additional information on intragroup exposures to, for instance, industrial subsidiaries, which would involve an additional burden.

3.1.2 Relevant KPIs to be disclosed by credit institutions

33. In accordance with Article 4 of the CRR, a 'credit institution' is an undertaking, the business of which is to take deposits or other repayable funds from the public and **to grant credits for its own account**.

34. **Lending activity** is the main business of credit institutions. Credit institutions have the capacity and the ability to reorient capital flows towards environmentally sustainable activities, and to help their counterparties in the transition to a green economy, through their lending business. Lending is also their main source of revenues and profits through the net interest margin, and one of their main sources of losses due to provisions and impairments.

35. The best way to show the extent to which the financial activities of a credit institution are aligned with the Taxonomy is to show the extent to which they are financing activities that are taxonomy-aligned, based on the composition of their lending and financing exposures, including loans and advances and debt securities, and of their equity instruments. Disclosures regarding institutions' financial activities should be based on the composition of their exposures. This will provide a clearer picture than the disclosure of information on the composition of their interest

⁶ <https://www.eba.europa.eu/regulation-and-policy/supervisory-reporting/implementing-technical-standards-on-supervisory-reporting-changes-related-to-crr2-and-backstop-regulation>

margin (interest income can be very different for legacy assets and stock compared to new loans, and it is not so representative of the composition of banks' activities). The KPIs should provide information on the ratio of taxonomy-aligned exposures for loans and advances, debt securities and equity holdings (so called green assets) compared to total exposures (green asset ratio).

36. Information on the lending portfolio of institutions should include (point-in-time) information on the stock of lending at the disclosure reference date, and information on (the flow of) new lending during the disclosure period (e.g. over a year or 6 months depending on the disclosure period). The point-in-time information on the stock of lending is necessary to understand the institution's level of alignment with the Taxonomy, and its level of exposure to environmental risks. The information on flows, based on new loans, is necessary to understand how the institution is transitioning and helping its counterparties in the transition to sustainable economy.

37. **Equity holdings** - Credit institutions may also reorient capital flows and finance taxonomy-aligned activities through their holdings of equity instruments. Therefore, institutions should also disclose information on the ratio of taxonomy-aligned equity holdings (green assets) compared to total equity holdings.

38. **Commercial services other than lending** - In addition to the lending activity and the related interest margin, commercial activities that generate fee and commission income are another main source of income for credit institutions. This source of income has increasing relevance in the current context of lower for longer interest rates, and is linked to services provided by the institution other than lending, including⁷:

- issuance or other services related to third party securities; reception, transmission and execution on behalf of customers of orders to buy or sell securities; merger and acquisition corporate advisory services; corporate finance services related to capital market advisory services for corporate clients or other; clearing and settlement services; custody and other related services; fee and commission income for the distribution of products issued by entities outside the prudential group to its current customers; loan servicing activities; foreign exchange services and international transactions.

39. Credit institutions should disclose KPIs for the part of fee and commission income linked to services provided to corporates aligned with the Taxonomy. The KPIs should show the proportion of the institution's fee and commission income derived from products or services associated with economic activities that qualify as environmentally sustainable.

40. **Off-balance-sheet exposures** – Credit institutions may also influence the orientation of capital flows towards more or less sustainable economic activities through their off-balance-sheet exposures, for example by backing loans that are financing taxonomy-aligned activities, or in the

⁷ Fee and commission income as reported by credit institutions in FINREP, and according to the breakdown of services reported in template '22.1 Fee and commission income and expenses by activity'

case of their asset management services, by investing the assets under management in corporates that are more or less aligned with the Taxonomy Regulation. A complementary ratio on the level of alignment with the Taxonomy of relevant off-balance-sheet exposures, based on the underlying assets, should be disclosed.

41. In accordance with the above, the turnover indicator defined by Article 8 of the Taxonomy Regulation for non-financial corporates (NFC) is not the most suitable KPI for credit institutions to disclose, given the variety of counterparties and economic activities financed by banks and the differences sources of income they rely on. Additionally, the main sources of GHG emissions by credit institutions are scope 3 emissions that occur in the value chain of the institutions linked to the GHG emissions of their counterparties, and not the scope 1 direct GHG emissions or scope 2 GHG emissions linked to their own consumption of purchased electricity, heat, or steam. Consequently, the indicators defined for NFC in Article 8 of the Taxonomy Regulation in terms of operational expenses (Opex) or capital expenses (Capex) for investments aimed at reducing direct GHG emissions or the emissions linked to own consumption, are also not KPIs that credit institutions should disclose.

EBA advice to the Commission – Relevant KPIs for credit institutions

42. Credit institutions should disclose the following information on their level of alignment with the Taxonomy.

43. The main KPI showing the overall alignment of credit institutions' balance sheets with the Taxonomy should be the green asset ratio (GAR), which relates to their lending business, including loans and advances and debt securities, and to their equity holdings. Credit institutions should provide information on the green asset ratio that shows the proportion of taxonomy-aligned exposures (green assets) compared to total eligible exposures.

44. Information on the lending and equity portfolio should include point-in-time information on the stock of loans, to show the level of alignment of the institutions' activities with the Taxonomy; and on flows of new lending to show how they are transitioning towards sustainable economic activities, how they are adapting to new climate change circumstances, and how they are helping their counterparties in the transition and adaptation path.

45. For their commercial activities, including business and services to corporates that generate fee and commission income, other than lending, equity holdings or asset management, credit institutions should disclose information on the proportion of the institution's fee and commission income derived from those products or services that are associated with economic activities that qualify as environmentally sustainable.

46. For their off-balance-sheet exposures, credit institutions should disclose a ratio based on the level of alignment with the Taxonomy of the underlying assets of the relevant off-balance-sheet exposures, including financial guarantees and assets under management.

47. In addition, credit institutions should provide separate disclosures for their trading portfolio in terms of overall composition, trends, targets and limits. More granular disclosures are proposed for those institutions with a higher level of trading activity, and whose trading portfolio is above a certain threshold.

48. Credit institutions should disclose the information required in Article 8 of the Taxonomy Regulation using the KPIs specified in this box and in the rest of this document and not the KPIs proposed under Article 8 of the Taxonomy Regulation for non-financial corporates in terms of turnover, capex and Opex, for the reasons explained in the paragraphs in this section.

3.1.3 Economic activities to be included in ESG disclosures – Types of financial instruments

(i) Green asset ratio (on-balance-sheet exposures)

49. The green asset ratio on lending activities and equity holdings should show the level of alignment of credit institutions' lending and financing activities with the Taxonomy, and should therefore focus on the asset side of credit institutions' balance sheets. Credit institutions should provide information on the green asset ratio, including:

- a. Loans and advances
- b. Debt securities
- c. Holdings of equity instruments
- d. Repossessed collaterals

50. The next paragraphs in this section elaborate on the accounting categories of financial assets that credit institutions should consider in the calculation of their green asset ratio.

51. Financial assets held for trading are those acquired mainly with the purpose of selling or repurchasing them in the near term. According to IFRS 9, trading generally reflects active and frequent buying and selling, and financial instruments held for trading are generally used with the objective of generating a profit from short-term fluctuations in price or the dealer's margin.

- The temporary nature of these investments is less compatible with the nature of taxonomy-aligned activities, which should substantially contribute to environmental objectives.
- In addition, disclosure of information on taxonomy alignment for this type of volatile investment can lead to undue 'window-dressing' practices as of the disclosure reference date, given their short-term nature.
- Financial assets held for trading should therefore be excluded from the calculation of the green asset ratio.

- Alternatively, institutions should disclose information on the composition of their trading portfolio as a whole, and whether there is any trend in terms of predominant sectors and their alignment or misalignment with the Taxonomy. In those cases where the trading portfolio of the institution is above a minimum threshold, additional disclosures should be required in order to show what type of exposures and markets the trading activity of the institution takes place in, and a separate KPI for the absolute volume of sales and purchases of taxonomy-aligned securities compared to total transactions of eligible securities should be disclosed.
52. The accounting category of financial assets at amortised cost refers to debt instruments, including loans and advances and debt securities, that are held in order to collect contractual cash flows and meet the IFRS 9 'solely payments of principal and interest' on the principal amount outstanding test (SPPI test). The long-term nature of the business model behind these instruments makes them clearly suitable and compatible with the definition of taxonomy-aligned activities that should substantially contribute to environmental objectives. Therefore, this category of instrument should be considered as eligible in the calculation of the green asset ratio.
53. Debt instruments, including loans and advances and debt securities, that are classified as financial assets at fair value through other comprehensive income are not held for trading but form part of a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and meet the SPPI criterion. While their long-term nature is not as clear as in the case of debt instruments at amortised cost, their volatility is not comparable to the held for trading portfolio, and they can still contribute substantially to environmental objectives. This is also the case of equity instruments that are not held for trading and are classified as financial assets at fair value through other comprehensive income. Therefore, these categories of instruments, both equity and debt instruments, should be included in the calculation of the green asset ratio.
54. Similarly, the following residual accounting categories should be part of the GAR calculation:
- Financial assets that are not held for trading but are classified as financial assets designated at fair value through profit or loss. This category includes debt instruments that under IFRS 9 are designated as such at initial recognition to reduce or eliminate accounting mismatches.
 - Non-trading financial assets mandatorily at fair value through profit or loss, including debt and equity instruments, that are reclassified to this category in the infrequent case of a change in the credit institution's business model for managing financial assets.
55. Finally, and given the prudential scope of consolidation proposed regarding the delimitation of the activities to be included in the green asset ratio, the portfolio of investments recognised as 'Investments in subsidiaries, joint ventures and associates' should also be considered in the calculation of the green asset ratio, so that the disclosure reflects the level of alignment of the

credit institution's non-financial and/or insurance subsidiaries or participations with the Taxonomy.

56. Other on-balance-sheet exposures to be considered include real estate collaterals obtained by the credit institution by taking possession, and recognised as non-current assets held for sale in the balance sheet of the bank at the disclosure reference date.

(ii) Off-balance-sheet exposures

57. Credit institutions should consider those off-balance-sheet exposures that they manage and that channel or contribute to channelling capital flows into economic activities whose environmental sustainability can be assessed in accordance with the Taxonomy Regulation, mainly:

- a. financial guarantees backing loans and advances and other debt instruments of corporates, as by backing them the institution is facilitating the actual financing of those activities;
- b. assets under management, as the institution is orienting their customers' capital towards specific activities or counterparties that can be assessed under the Taxonomy Regulation.

58. Other off-balance-sheet exposures such as commitments are not considered as they do not finance any activity while they are available and registered as off-balance-sheet exposures.

EBA advice to the Commission – Types of financial instruments to be considered

59. Green asset ratio (on-balance-sheet exposures).

60. The calculation of the green asset ratio (on-balance-sheet exposures) should include the following accounting categories of financial assets (including loans and advances, debt securities and equity holdings): financial assets at amortised cost, financial assets at fair value through other comprehensive income, investments in subsidiaries, joint ventures and associates, financial assets designated at fair value through profit or loss and non-trading financial assets mandatorily at fair value through profit or loss. It should also include the real estate collaterals obtained by credit institutions by taking possession in exchange for the cancellation of debts.

61. Financial assets held for trading should be excluded from the calculation of the green asset ratio at this stage. Alternatively, separate disclosures are proposed.

62. This means that debt instruments (including debt securities and loans and advances) and equity instruments should be considered in the environmental disclosures and for the calculation of the green asset ratio when they fall under any of the relevant accounting categories. While derivatives should be excluded.

63. The calculation of KPIs for off-balance-sheet exposures should consider financial guarantees granted by the bank and assets under management for guarantee and investee corporates subject to NFRD disclosure obligations.

64. As an alternative to disclosing KPIs for the HfT, institutions should provide explanations on their investment policy regarding the trading portfolio, its composition as a whole, and any trend in terms of predominant sectors and their level of alignment with the Taxonomy. They should also explain potential limits in terms of environmental risks, targets in terms of the level of alignment of the Taxonomy, and how they manage the environmental risks that may impact the value of the portfolio. In those cases where the trading portfolio of the credit institution is above a combined threshold, a separate and specific KPI for the trading book is proposed.

3.1.4 Economic activities to be included in the disclosures – Types of counterparties

65. FINREP includes information for different types of counterparties for the different types of financial assets considered under the scope of the disclosures. The table below lists the different types of counterparties included in FINREP and an assessment of their consideration for the disclosure of information on taxonomy-aligned exposures, based on whether it is possible to apply to them the Taxonomy and on the possibility of obtaining access to relevant information.

EBA advice to the Commission – Types of counterparties

66. The following types of counterparties should be considered when calculating and disclosing the KPIs under Article 8 of the Taxonomy Regulation.

Figure 2: Types of counterparties

Type of instrument and counterparty	Relevance for environmental disclosures
Equity instruments	Equity instruments
Of which, credit institutions	Relevant. To be considered, given the relevance of these exposures in credit institutions' balance sheets, and the possibility of assessing them based on the counterparties' public disclosures, even if the impact on the environment is indirect through counterparties that also have an indirect impact on the environment.
Of which, other financial corporations	Relevant. To be considered, based on counterparties' disclosures, given the relevance of these exposures in credit institutions' balance sheets, even if the impact on the environment is indirect through counterparties that also have an indirect impact on the environment.

Of which, non-financial corporations	Relevant. To be considered, based on counterparties' disclosures or on the object and activity financed through specialised lending.
Debt securities	Debt securities
Of which, central banks	Not considered at this stage. While they are relevant exposures that should be eventually added to the calculations, they are not included at this stage given that it is not possible to apply the taxonomy screening criteria to them and that they are not subject to standardised ESG disclosure obligations.
Of which, general governments	<p>The FINREP definition of general governments includes central governments, state or regional governments and local governments, including administrative bodies and non-commercial undertakings, but excluding public companies and private companies held by these administrations that have a commercial activity (which shall be reported under 'credit institutions', 'other financial corporations' or 'non-financial corporations' depending on their activity); social security funds; and international organisations, such as institutions of the European Union, the International Monetary Fund and the Bank for International Settlements.</p> <p>Exposures to general governments should not be considered at this stage for the calculation of KPIs. While they are relevant exposures that should be eventually added to the calculations, at this stage they are not covered by the Taxonomy Regulation, and general governments are not subject to disclosure obligations under the NFRD. It would be difficult for banks to assess the alignment of their sovereign bond portfolios other than for the small portion of potential green bonds (in the absence of an EU green bond standard). There are exceptions, such as exposures to municipalities, which in the case of some public banks represent the bulk of their exposures, for instance, house financing exposures, where institutions can rely on information provided by energy performance certificates for the environmental objective of climate change mitigation.</p>

Credit institutions	Relevant (see above)
Other financial corporations	Relevant
Non-financial corporations	Relevant
Loans and advances	Loans and advances
Central banks	Not considered at this stage. See comment above
General governments	Not considered at this stage. See comment above
Credit institutions	Relevant
Other financial corporations	Relevant
Non-financial corporations	Relevant
Of which, small and medium-sized enterprises	Relevant
Households	Relevant. Particularly the mortgage portfolio, house renovation loans and part of the credit consumption portfolio (motor vehicle loans) as they can be assessed under the relevant taxonomy screening criteria for the objective of climate change mitigation based on the information provided by the energy performance certificate of the underlying asset (immovable property or car).

67. These types of counterparties are considered when specifying the environmental disclosures. When proposing specific KPIs and disclosures for each type of environmental objective and risk, the KPI may cover all or only part of these types of counterparties depending on their relevance for the specific KPI.

3.1.5 Economic activities to be included in ESG disclosures – Location of the exposures

68. A recurring concern shared by credit institutions in the feedback received, particularly by those internationally active banks with subsidiaries outside the EU, refers to the fact that the EU Taxonomy and the NFRD apply only in EU jurisdictions and that it will be extremely challenging to collect information from their counterparties for exposures outside the EU.

69. The EBA acknowledges the challenges deriving from the level of application of the EU Taxonomy and the NFRD, particularly in the case of general lending where the use of proceeds is unknown and credit institutions must rely on the information that their counterparties will have to disclose under Article 8 of the EU Taxonomy regarding their proportion of taxonomy-aligned activities.

70. At the same time, given the relevance of non-EU subsidiaries in these banking groups, leaving exposures to non-EU counterparties totally outside the scope of the disclosures would lead to an incomplete picture of the level of alignment of these banks' activities with the Taxonomy.

71. The EBA proposes that, as a minimum, credit institutions with non-EU subsidiaries should identify lending and equity exposures to non-EU counterparties that pertain to sectors (NACE sectors 4 levels of detail) covered by the Taxonomy. Then, proxies should be used to determine on a best effort basis the part of those exposures aligned with the Taxonomy, and this information should be disclosed separately from the EU GAR with appropriate caveats. These proxies could be:

- a. Based on the counterparties' disclosures on the basis of international standards (e.g. TCFD), when available. In this case, institutions should explain the type of information available and the standards applied;
- b. Based on institutions' own models and the classification of exposures according to these. In this case institutions should explain the main features of the models and classification criteria applied;
- c. Based on public data and proxies at aggregate sector level. In this regard, the development by the Commission of coefficients on aggregate alignment with the Taxonomy by sectors for non-EU jurisdictions would support credit institutions' in their transparency efforts and further emphasise the EU's efforts to promote the path towards sustainability.

72. Credit institutions with non-EU subsidiaries should in any case calculate and separately disclose a GAR for EU exposures, in accordance with the Taxonomy and the methodology proposed in this document.

EBA advice to the Commission – Location of the exposures

73. Given the heightened challenges in terms of data availability for those exposures to counterparties outside the EU, institutions with non-EU subsidiaries should calculate and separately disclose a GAR for EU exposures only, in accordance with the Taxonomy and the methodology proposed in this document.

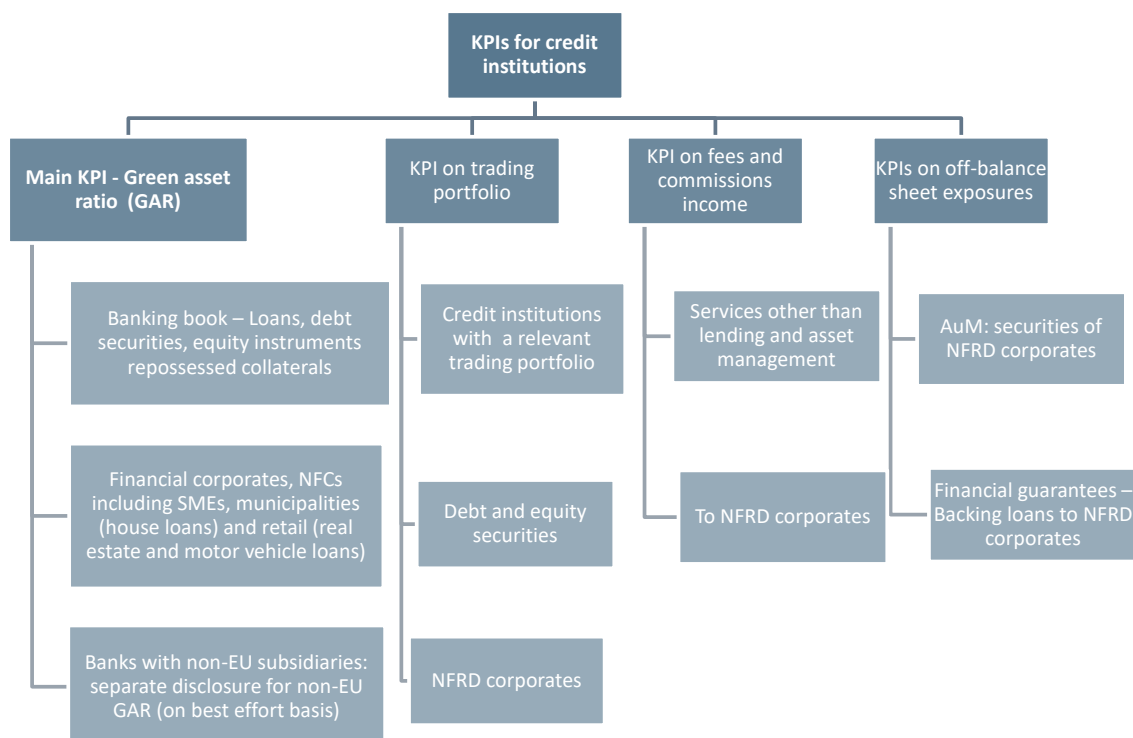
74. Those banking groups with subsidiaries outside the EU, should, for their non-EU business, as a minimum identify lending and equity exposures to non-EU counterparties that pertain to sectors (NACE sectors 4 levels of detail) covered by the Taxonomy. Then, proxies should be used, in accordance with the proposals included in this section, to determine on a best effort basis the part of those exposures that are aligned with the Taxonomy, and this information should be disclosed separately from the EU GAR with appropriate caveats.

3.2 Quantitative disclosures, KPIs and methodology

75. This section of the report explains the KPIs and the quantitative information that institutions should disclose and the methodology that they should apply for the calculation of KPIs. In

particular, the section explains the quantitative information on taxonomy-aligned exposures that credit institutions should disclose, including definitions of relevant KPIs and methodology.

Figure 3: KPIs – quantitative disclosures by credit institutions



3.2.1 Definition of KPIs for taxonomy-aligned exposures (including green asset ratio) and methodology

76. The definition of the GAR and other KPIs may present some differences and peculiarities, depending on the type of asset and the type of counterparty:

- a. For example, availability of data will be more challenging in the case of SMEs compared to other non-financial corporations that are under the scope of the NFRD and they will have to start disclosing relevant information from January 2022.
- b. In the case of households and retail counterparties, in their responses to the EBA survey some banks argue that these should be left out of the scope of the disclosures, because the Taxonomy does not apply to them. However, the EBA is proposing KPIs for the mortgage portfolio and house renovation loans, based on the energy performance certificate of the collateral, and for car loans, as both types of exposures can be assessed according to the Taxonomy Regulation based on the energy performance of the underlying asset.

77. The EBA advice includes the methodology for the computation of the GAR and KPIs depending on the type of exposure or counterparty, and for the computation of the aggregate GAR that should show the overall level of alignment of institutions with the Taxonomy.

EBA advice to the Commission

78. Credit institutions' disclosures will rely to a great extent on the information disclosed by their counterparties. Regarding the KPI and information to be used from non-financial corporates, the methodology proposed and explained in the sections below relies mainly on information relating to the percentage of their turnover generated by taxonomy-compliant activities. The reason for this proposal is that the volume of turnover includes the income generated by the non-financial corporate from all activities, including new and old income-generating assets, and better reflects the status of the business mix of the corporate in terms of sustainability.

79. The EBA has assessed the possibility of basing institutions' KPIs on other information from their counterparties, such as Capex. Eventually, the EBA believes that institutions' investment in counterparties' Capex will be shown in cases where they provide special purpose lending for taxonomy-aligned economic activities (including project finance of Capex investments), and that for general financing purposes and for fee and commission income from services other than lending, turnover is the proper basis, as it reflects the overall activity of the counterparty, to which general lending is linked and should allow for consistency and comparability of definitions of KPIs.

80. Credit institutions could, on a voluntary basis, and for the green asset ratio, complement the main disclosure on the overall taxonomy alignment of their activity based on counterparties' turnover with additional, secondary KPIs estimated using Capex only for general financing, if they deem it necessary to show their counterparties transitioning or adaptation efforts, but keeping in mind that this does not mean that they are orienting capital flows to those Capex investments in this case, as this is general lending and any specific capital flows oriented to Capex should be reflected in the specialised lending disclosure.

3.2.2 Green asset ratio (GAR)

81. The green asset ratio will show the proportion of the credit institution's assets invested in taxonomy-compliant economic activities as a share of total eligible assets (according to the scope of instruments, counterparties and location of activities defined in section 3.1 of this document). It is based on the following indicator, included in Annex I, on 'Further guidance for banks and insurance companies', of the Commission non-binding guidelines on reporting of climate-related information⁸ (Commission NBG):

- Proportion of financial assets financing sustainable economic activities contributing substantially to climate mitigation and/or adaptation.

⁸ https://ec.europa.eu/finance/docs/policy/190618-climate-related-information-reporting-guidelines_en.pdf

82. The GAR will be defined with the scope specified in section 3.1 above, based on the exposures and balance sheet according to the prudential scope of consolidation, and for the types of assets and accounting portfolios defined as relevant in the same section 3.1, including information on stock and flows, on transitional and enabling activities, and on specialised and general purpose lending. Credit institutions should also disclose forward-looking information and targets for the proposed KPIs.

83. The combination of information on stock versus flow of loans, and on specialised lending vs general purpose lending will show the part of banks' exposures that is financing Capex/Opex of the counterparty with transitioning/adaptation purposes (i.e. new specialised lending financing capex taxonomy-aligned projects). Information on general lending will show the part of banks' exposures financing the overall activity of the counterparty.

84. Credit institutions should disclose the aggregate GAR for total on-balance-sheet eligible assets, and the breakdown by environmental objective, including climate change mitigation, climate change adaptation and other environmental objectives, and by type of counterparty. The definition of the KPIs is built on the following components:

- Numerator: Loans and advances/debt securities/equities/repossessed collaterals/total exposures financing taxonomy-compliant economic activities contributing substantially to, or enabling, climate change mitigation, climate change adaptation or other environmental objectives;
- Denominator: Total eligible loans and advances/total eligible debt securities/total eligible equities/total eligible exposures (considering the scope of eligible assets defined in section 3.1).

85. Institutions shall, in addition to the GAR, which provides information on eligible assets (that can be assessed), disclose the percentage of their total assets that is covered by the GAR.

86. The following sections explain the methodology for computation of the GAR depending on the type of instrument and counterparty, and at aggregate level.

(i) Green asset ratio for lending activities and equity holdings with non-financial corporates (NFC) subject to NFRD disclosure obligations

87. This section applies to exposures to NFC that are subject to disclosure obligations under the NFRD.

88. Credit institutions shall disclose the green asset ratio as a point-in-time for the stock of loans, debt securities and equity holdings, to show the composition of their balance sheets and alignment with taxonomy-aligned activities, and in terms of flows for new lending, to show how they are transitioning towards sustainability. The figure below shows the different steps that institutions have to follow in order to calculate the GAR for this type of corporates for each environmental objective.

Figure 4: GAR Loans and advances to NFC subject to NFRD disclosure obligations

Environmental objectives	First step	Second step	Green asset ratio (GAR)
Climate change mitigation	Proportion of loans and advances/debt securities/equity instruments financing economic activities in sectors covered by the Taxonomy for the objective of climate change mitigation, compared to total loans/debt securities/equity instruments of NFRD NFC.	Proportion of loans and advances/debt securities/equity instruments financing taxonomy-compliant economic activities for the objective of climate change mitigation, compared to loans and advances/debt securities/equity instruments financing economic activities in sectors covered by the Taxonomy for the objective of climate change mitigation.	Proportion of loans and advances/debt securities/equity instruments financing taxonomy-compliant economic activities for the objective of climate change mitigation, compared to total loans and advances/debt securities/equity instruments of NFRD NFC.
		Of which, enabling activities Of which, transitional activities	Of which, enabling activities Of which, transitional activities
	Stock and flow, including targets and forward-looking information		
Climate change adaptation	Proportion of loans and advances/debt securities/equity instruments financing economic activities in sectors covered by the Taxonomy for the objective of climate change adaptation compared to total loans/debt securities/equity instruments of NFRD NFC.	Proportion of loans and advances/debt securities/equity instruments financing taxonomy-compliant economic activities for the objective of climate change adaptation compared to loans and advances/debt securities/equity instruments financing economic activities in sectors covered by the Taxonomy for the objective of climate change adaptation.	Proportion of loans and advances/debt securities/equity instruments financing taxonomy-compliant economic activities for the objective of climate change adaptation compared to total loans and advances/debt securities/equity instruments of NFRD NFC.
		Of which, enabling activities Of which, adaptation activities	Of which, enabling activities Of which, adaptation activities
	Stock and flow, including targets and forward-looking information		
Other environmental activities	The same ratios for each of the other four environmental objectives included in Article 9 of the Taxonomy Regulation, should be disclosed, once the screening criteria are defined. That is: (c) the sustainable use and protection of water and marine resources; (d) the transition to a circular economy; (e) pollution prevention and control; (f) the protection and restoration of biodiversity and ecosystems.		
Stock and flow, including targets and forward-looking information			

1) Green asset ratio: methodology for loans and advances – Non-financial corporates subject to NFRD disclosure obligations

89. Credit institutions shall use and disclose the following items for the calculation of the GAR for this type of exposures.

90.(1)(a) Total loans and advances of NFRD NFC. This includes loans and advances to NFC subject to NFRD disclosure obligations, recognised under the relevant accounting categories as explained above, i.e. the gross carrying amount of loans and advances at amortised cost and at

fair value through other comprehensive income, and loans and advances not held for trading at fair value through profit or loss.

91.(1)(b) Loans and advances to NFC subject to NFRD disclosure obligations financing economic activities in sectors covered by the Taxonomy for the relevant environmental objective (climate change mitigation, climate change adaptation, other environmental objectives). This includes the gross carrying amount of loans and advances in the relevant accounting categories towards sectors (4 level NACE codes) relevant for each environmental objective according to the Taxonomy, as specified in the technical annex to the Commission draft Delegated Act on technical screening criteria for determining the conditions under which an economic activity qualifies as environmentally sustainable.⁹

92.(1)(c) Loans and advances to NFC subject to NFRD disclosure obligations financing taxonomy-compliant economic activities contributing substantially to, or enabling, the relevant environmental objective (climate change mitigation, climate change adaptation, other environmental objectives). This includes all loans and advances financing:

- a. economic activities that qualify as contributing substantially to climate change mitigation in accordance with Article 10 of the Taxonomy Regulation, including transitional activities, or to climate change adaptation in accordance with Article 11 of the Taxonomy Regulation, or to any of the other four environmental objectives, in accordance with Articles 12 to 15 of the Taxonomy Regulation;
- b. or enabling activities in accordance with Article 16 of the Taxonomy Regulation;
- c. and meeting the criteria specified in Article 3 of the same regulation.

93. Calculation of this amount:

- a. (1)(c)(1) For loans and advances where the use of proceeds is known, such as specialised lending - project finance loans as defined in FINREP ANNEX V:
 - Credit institutions shall consider the gross carrying amount of the project finance exposures to NFC subject to NFRD disclosure obligations, to the extent and proportion that the project funded qualifies as contributing substantially to climate change mitigation, adaptation or other environmental objectives in accordance with Articles 10 to 15 of the Taxonomy Regulation, or as enabling activity in accordance with Article 16, and meet the criteria specified in Article 3 of the same Regulation. The assessment shall be based on information provided by the counterparty on the project or activities to which the proceeds will be applied. Institutions should provide transparency on the kind of economic activity that is being funded. Double counting is not allowed, if the

⁹ https://ec.europa.eu/info/law/sustainable-finance-taxonomy-regulation-eu-2020-852/amending-and-supplementary-acts/implementing-and-delegated-acts_en

same specialised lending exposure can be relevant for two environmental objectives, the institution shall allocate it to the most relevant.

- b. (1)(c)(2) For loans and advances to NFC subject to NFRD disclosure obligations, where the use of proceeds is unknown (general loans):
- Credit institutions shall rely on the information that the counterparty will have to disclose in accordance with Article 8 of the Taxonomy Regulation. In particular, on the information on the proportion of their turnover deriving from products or services associated with economic activities that qualify as environmentally sustainable under Article 3 of the Taxonomy Regulation for each environmental objective included in Article 9 (% Turnover CCM; % Turnover CCA; % Turnover from each environmental objective included in points (c) to (f) of Article 9).
 - The amount of loans and advances to NFC subject to NFRD disclosure obligations to be considered shall be: the sum of the gross carrying amount of the total loans and advances with unknown use of proceeds to NFC subject to NFRD disclosure obligations, weighted by the proportion of taxonomy-aligned activities (with a breakdown for transitioning and enabling activities) for each counterparty (i.e. % Turnover of the counterparty aligned with the Taxonomy and contributing to or enabling the relevant environmental objective).
- c. (1)(c) 'Loans and advances to NFC other than SMEs financing taxonomy-compliant economic activities contributing substantially to, or enabling, the relevant environmental objective' = (1)(c)(1) + (1)(c)(2)

94. Institutions shall calculate the KPIs proposed in Figure 3 according to the following formulas for these types of exposures.

95. First step = (1)(b)/(1)(a) (as developed in paragraphs 91 and 90 above respectively).

96. Second step = (1)(c)/(1)(b) (as developed in paragraphs 92 and 91 above, respectively). Institutions shall disclose the part of the KPI that refers to enabling activities separately, when relevant.

97. GAR L&A (for each environmental objective) = (1)(c)/(1)(a) (as developed in paragraphs 92 and 90 above, respectively). Institutions shall disclose the part of the KPI that refers to enabling activities separately, when relevant.

98. The KPIs will be disclosed in terms of:

- a. Stock – based on the total gross carrying amount of loans and advances as of the disclosure reference date.

- b. Flow – based on the gross carrying amount of new loans and advances during the year prior to the disclosure reference date.
- c. With a separate breakdown for enabling and transitional/adaptation activities, and for specialised lending.

99. Credit institutions should, in addition to actual information on the values of the KPIs, disclose forward-looking information based on scenario analysis and their business strategies, and information on short-, medium- and long-term targets.

2) Green asset ratio for debt securities – Non-financial corporates subject to NFRD disclosure obligations

100. Credit institutions shall calculate and disclose the following items for the calculation of the GAR for this type of exposure.

101. (2)(a) Total debt securities of NFC subject to NFRD disclosure obligations – Debt securities related to NFC subject to NFRD disclosure obligations that are recognised under the relevant accounting categories. This includes the gross carrying amount of debt securities at amortised cost and at fair value through other comprehensive income, and debt securities not held for trading at fair value through profit or loss.

102. (2)(b) Debt securities of NFC subject to NFRD disclosure obligations financing economic activities in sectors covered by the Taxonomy for the relevant environmental objective (climate change mitigation, climate change adaptation, other environmental objectives). This includes the gross carrying amount of debt securities in the relevant accounting categories in relation to the relevant sectors (4 level NACE codes) for each environmental objective according to the Taxonomy, as specified in the technical annex to the Commission Delegated Act on technical screening criteria for determining the conditions under which an economic activity qualifies as environmentally sustainable.

103. (2)(c) Debt securities of NFC subject to NFRD disclosure obligations financing taxonomy-compliant economic activities contributing substantially to, or enabling, the relevant environmental objective (climate change mitigation, climate change adaptation, other environmental objectives). This includes all debt securities financing:

- a. economic activities that qualify as contributing substantially to climate change mitigation in accordance with Article 10 of the Taxonomy Regulation, including transitional activities, or to climate change adaptation in accordance with Article 11 of the Taxonomy Regulation, or to any of the other four environmental objectives, in accordance with Articles 12 to 15 of the Taxonomy Regulation;
- b. or enabling activities in accordance with Article 16 of the Taxonomy Regulation;
- c. and meeting the criteria specified in Article 3 of the same regulation.

104. Calculation of this amount:

- a. (2)(c)(1) For debt securities where the use of proceeds is known, credit institutions shall consider the sum of the following amounts:
 - i. (2)(c)(1)(a) Green bonds: Credit institutions shall consider the total gross carrying amount of exposures to green bonds issued in accordance with any future EU green bond standard. Current bond issuances qualified as 'green bonds' by the issuer whose use of proceeds have to be invested in taxonomy-eligible activities shall be assessed depending on the level of alignment with the Taxonomy regulation of the activities or projects funded, based on ad hoc information provided by the issuer for the issuance. Institutions should provide transparency on the kind of economic activity that is being funded. Double counting is not allowed: if the same green bond is eligible for two environmental objectives, institutions shall allocate it to the most relevant.
 - ii. (2)(c)(1)(b) Credit institutions shall consider the gross carrying amount of debt securities invested in project finance exposures, to the extent (percentage) that the project funded qualifies as contributing substantially to climate change mitigation, adaptation or other environmental objectives in accordance with Articles 10 to 15 of the Taxonomy Regulation, or as enabling activity in accordance with Article 16, and meets the criteria specified in Article 3 of the same regulation. The assessment shall be based on ad hoc information provided by the issuer for that issuance. Double counting is not allowed: if the same specialised lending exposure is eligible for two environmental objectives, institutions shall allocate it to the most relevant. Institutions should provide transparency on the kind of economic activity that is being funded.
- b. (2)(c)(2) For debt securities of NFC subject to NFRD disclosure obligations, where the use of proceeds is unknown:
 - i. Credit institutions shall rely on the information that the counterparty will have to disclose in accordance with Article 8 of the Taxonomy Regulation. In particular, on the information on the proportion of their turnover deriving from products or services associated with economic activities that qualify as environmentally sustainable under Article 3 of the Taxonomy Regulation for each environmental objective included in Article 9 (% Turnover CCM; % Turnover CCA; % turnover from each environmental objectives included in points (c) to (f) of Article 9).
 - ii. The amount of debt securities of NFC subject to NFRD disclosure obligations to be considered shall be: the sum of the gross carrying amount

of the total debt securities with unknown use of proceeds to NFC subject to NFRD disclosure obligations, weighted by the proportion of taxonomy-aligned activities (with a breakdown of transitional and enabling activities) for each counterparty (i.e. % Turnover of the counterparty aligned with the Taxonomy and contributing to or enabling the relevant environmental objective).

- c. (2)(c) Debt securities of NFC subject to NFRD disclosure obligations financing taxonomy-compliant economic activities contributing substantially to, or enabling, the relevant environmental objective (climate change mitigation, climate change adaptation, other environmental objectives) = (2)(c)(1) + (2)(c)(2).

105. Institutions shall calculate the KPIs proposed according to the following formulas for these types of exposures:

106. **First step = (2)(b)/(2)(a).**

107. **Second step = (2)(c)/(2)(b);** Institutions shall disclose the part of the KPI that refers to enabling activities separately, when relevant.

108. **GAR DS = (2)(c)/(2)(a).**

109. **The KPIs will be disclosed in terms of:**

- a. Stock – based on the total gross carrying amount of debt securities as of the disclosure reference date.
- b. Flow – based on the gross carrying amount of new debt securities during the year prior to the disclosure reference date.
- c. With a separate breakdown for enabling and transitional activities, and for specialised lending.

3) Green asset ratio for equity holdings – Non-financial corporates subject to NFRD disclosure obligations

110. Credit institutions shall calculate and disclose the following items for the calculation of the GAR for these types of exposures.

111. **Proportion of equity holdings of NFC subject to NFRD disclosure obligations financing economic activities in sectors covered by the Taxonomy for the objective of climate change mitigation/adaptation/other, compared to total equity holdings of NFC subject to NFRD disclosure obligations.**

- a. The numerator will include the gross carrying amount of the equity holdings not held for trading (financial assets at fair value through other comprehensive income,

financial assets not held for trading at fair value through profit or loss and investments in subsidiaries, joint ventures and associates) in sectors covered by the Taxonomy;

- b. The denominator will be the total gross carrying amount of the equity holdings not held for trading (financial assets at fair value through other comprehensive income, financial assets not held for trading at fair value through profit or loss and investments in subsidiaries, joint ventures and associates).

112. Proportion of equity holdings of NFC subject to NFRD disclosure obligations financing taxonomy-compliant economic activities contributing substantially to, or enabling, climate change mitigation/adaptation/other objectives, compared to equity holdings of NFC subject to NFRD disclosure obligations in sectors covered by the Taxonomy for the objective of climate change mitigation/adaptation/other.

- a. The numerator will include the gross carrying amount of the equity holdings not held for trading (financial assets at fair value through other comprehensive income, financial assets not held for trading at fair value through profit or loss, and investments in subsidiaries, joint ventures and associates) aligned with the Taxonomy, based on the percentage of turnover of the NFC to which the equity instruments belongs that is aligned with the Taxonomy contributing to, or enabling the objectives of climate change mitigation/adaptation/other;
- b. The denominator will include the gross carrying amount of the equity holdings not held for trading (financial assets at fair value through other comprehensive income and financial assets not held for trading at fair value through profit or loss) in sectors covered by the Taxonomy.

113. GAR EH = Proportion of equity holdings of NFC subject to NFRD disclosure obligations financing taxonomy-compliant economic activities contributing substantially to, or enabling, climate change mitigation/adaptation/other environmental objectives, compared to total equity holdings of NFC subject to NFRD disclosure obligations.

- a. The numerator will include the gross carrying amount of the equity holdings not held for trading (financial assets at fair value through other comprehensive income, financial assets not held for trading at fair value through profit or loss, and investments in subsidiaries, joint ventures and associates) aligned with the Taxonomy, based on the percentage of turnover of the NFC to which the equity instruments belongs aligned with the Taxonomy contributing to, or enabling the objectives of climate change mitigation/adaptation/other;
- b. The denominator will be the total gross carrying amount of the equity holdings not held for trading (financial assets at fair value through other comprehensive income,

financial assets not held for trading at fair value through profit or loss and investments in subsidiaries, joint ventures and associates).

114. The ratios shall be disclosed in terms of:
- Stock – based on the total gross carrying amount of equity holdings as of the disclosure reference date.
 - Flow – based on the gross carrying amount of equity holdings during the year prior to the disclosure reference date.
 - With a separate breakdown for enabling and transitional activities.

4) GAR on total financing to NFC subject to NFRD disclosure obligations (lending plus equity holdings)

Figure 5: GAR total financing extended to NFC subject to NFRD disclosure obligations

Environmental objectives	First intermediate KPI	Second intermediate KPI	Green asset ratio (GAR)
Climate change mitigation	Proportion of debt and equity instruments financing economic activities in sectors covered by the Taxonomy for the objective of climate change mitigation, compared to total debt and equity instruments.	Proportion of debt and equity instruments financing taxonomy-compliant economic activities for the objective of climate change mitigation, compared to debt and equity instruments financing economic activities in sectors covered by the Taxonomy for the objective of climate change mitigation.	Proportion of debt and equity instruments financing taxonomy-compliant economic activities for the objective of climate change mitigation, compared to total debt and equity instruments.
		Of which, enabling activities Of which, transitional activities	Of which, enabling activities Of which, transitional activities
Stock and flow, including targets and forward-looking information			
Climate change adaptation	Proportion of debt and equity instruments financing economic activities in sectors covered by the Taxonomy for the objective of climate change adaptation compared to total debt and equity instruments.	Proportion of debt and equity instruments financing taxonomy-compliant economic activities for the objective of climate change adaptation compared to debt and equity instruments financing economic activities in sectors covered by the Taxonomy for the objective of climate change adaptation.	Proportion of debt and equity instruments financing taxonomy-compliant economic activities for the objective of climate change adaptation compared to total debt and equity instruments.
		Of which, enabling activities Of which, adaptation activities	Of which, enabling activities Of which, adaptation activities
Stock and flow, including targets and forward-looking information			
The same ratios for each of the other four environmental objectives included in Article 9 of the Taxonomy Regulation should be disclosed once the screening criteria have been defined. That is: (c) the sustainable use and protection of water and			

Environmental objectives	First intermediate KPI	Second intermediate KPI	Green asset ratio (GAR)
Other environmental activities	marine resources; (d) the transition to a circular economy; (e) pollution prevention and control; (f) the protection and restoration of biodiversity and ecosystems		
	Stock and flow, including targets and forward-looking information		
TOTAL ALL Environmental objectives	Sum of the numerators and denominators of all environmental objectives to obtain the aggregate ratio for all exposures to NFC subject to NFRD disclosure obligations		
	Stock and flow, including targets and forward-looking information		

115. The three ratios that are proposed for each environmental objective should be disclosed at an aggregate level for all financing of on-balance-sheet instruments related to NFC subject to NFRD disclosure obligations, including equity holdings.

116. The numerator and denominator of the ratios will include the gross carrying amount of loans and advances, debt securities and equity holdings relevant to each case.

(ii) Green asset ratio for lending activities, equity holdings of financial corporates

117. The ESG impact of credit institutions and other financial corporations is mostly indirect, through their exposures to other counterparties. Therefore, credit institutions' exposures to other financial corporates may have an indirect impact on environmental objectives through exposures that will also have an indirect impact on those objectives, which makes it less evident to trace the impact of these exposures. Further, given the relevance in banks' balance sheets of exposures to other credit institutions and other financial corporations, their final impact on environmental objectives can be meaningful and should be considered. In addition, those financial corporates that are subject to disclosure obligations under the NFRD will have to disclose their alignment with the Taxonomy under Article 8, and therefore credit institutions should be able to assess these assets and exposure based on the counterparties' alignments with the Taxonomy.

118. Taking into account the accounting categories considered under the scope of Article 8 disclosures, as specified above, interbank (on demand) exposures are excluded from the calculation of the KPIs. Given the very short term nature of these exposures, they cannot contribute to achieving the Taxonomy's environmental objectives and it would be extremely challenging and burdensome for banks to assess them. It is therefore justified that interbank exposures be excluded from the computation of the KPIs.

Figure 6: GAR Loans and advances, debt securities and equity holdings of financial corporates

Environmental objectives	Green asset ratio (GAR)
Climate change mitigation	<p>Proportion of loans and advances, debt securities and equity holdings financing taxonomy-compliant economic activities for the objective of climate change mitigation, compared to total loans and advances, debt securities and equity holdings</p> <hr/> <p>Of which, enabling activities Of which, transitional activities</p> <hr/>
Climate change adaptation	<p>Proportion of loans and advances, debt securities and equity holdings financing taxonomy-compliant economic activities for the objective of climate change adaptation compared to total loans and advances, debt securities and equity holdings</p> <hr/> <p>Of which, enabling activities Of which, adaptation activities</p> <hr/> <p style="text-align: center;">Stock and flow, including targets and forward-looking information</p> <hr/>
Other environmental activities	<p>The same ratios for each of the other four environmental objectives included in Article 9 of the Taxonomy Regulation, should be disclosed, once the screening criteria have been defined. That is: (c) the sustainable use and protection of water and marine resources; (d) the transition to a circular economy; (e) pollution prevention and control; (f) the protection and restoration of biodiversity and ecosystems.</p> <hr/> <p style="text-align: center;">Stock and flow, including targets and forward-looking information</p> <hr/>

119. The numerator of the GAR for financial corporates should be always calculated based on the counterparties' Article 8 disclosures. The amount of loans and advances, debt securities and equity holdings of financial corporates to be considered in the numerator of the ratio shall be the sum of their gross carrying amount, weighted by the proportion of taxonomy-aligned activities (with a breakdown for transitioning/adaptation and enabling activities) for each counterparty. The KPI to be considered will depend on the type of counterparty:

- a. Exposures to other credit institutions: the gross carrying amount of debt securities, loans and advances and equity holdings shall be weighted by the 'Total GAR' of the counterparty as defined below, and by the 'percentage of total assets of the counterparty covered by the total GAR':
 - i. Gross carrying amount multiplied by 'Total GAR' of the counterparty, multiplied by '% of total assets covered by Total GAR'
- b. Exposures to investment firms:
 - i. Investment firms whose main business is dealing on own account as per Section A of Annex I of Directive 2016/65/EU: The gross carrying amount of debt securities, loans and advances and equity holdings shall be weighted by the GAR disclosed by the investment firms:

1. Gross carrying amount multiplied by ‘the value of assets invested (debt securities, equity instruments, cash equivalents and derivatives) in taxonomy-aligned economic activities as a share of the value of total assets invested’.
 - ii. Investment firms whose main business is investment services and activities other than dealing on own account, as per Section A of Annex of Directive 2014/65/EU: The gross carrying amount of debt securities, loans and advances and equity holdings shall be weighted by the KPI for revenues (i.e. fees, commissions and other monetary benefits) disclosed by the investment firms:
 1. Gross carrying amount multiplied by ‘fees, commissions and other monetary benefits from services and activities to taxonomy-aligned economic activities as a share of total fees, commissions and other monetary benefits from all services and activities’.
 - c. Exposures to asset managers: the gross carrying amount of debt securities, loans and advances and equity holdings shall be weighted by the ratio of the counterparty eligible investments that are taxonomy-aligned, as defined in ESMA’s advice to the Commission on disclosures under Article 8 of the Taxonomy Regulation:
 - i. Gross carrying amount multiplied by the asset manager’s ratio of eligible investments.
 - d. Exposures to insurance companies: the gross carrying amount of debt securities, loans and advances and equity holdings shall be weighted by the proportion of total assets of the counterparty invested in taxonomy-compliant economic activities, and, where relevant, by the premium ratio, as defined in EIOPA’s advice to the Commission on disclosures under Article 8 of the Taxonomy Regulation:
 - i. Gross carrying amount multiplied by the insurance company’s proportion of total assets of the counterparty invested in taxonomy-compliant economic activities and, where relevant, by the insurance company’s premium income from taxonomy-compliant economic activities.
120. The denominator will be the total gross carrying amount of loans and advances, debt securities and equity holdings of financial corporates.

(iii) Green asset ratio for retail exposures

Figure 7: GAR retail exposures

Type of exposure	Environmental objective	Green asset ratio (GAR)
Residential real estate/House renovation loans	Climate change mitigation	<p>Proportion of loans to households collateralised by residential immovable property or granted for house renovation purposes aligned with the Taxonomy, compared to total loans to households collateralised by residential immovable property or granted for house renovation purposes.</p> <hr/> <p>Stock and flow, including targets and forward-looking information</p> <hr/> <p>Transitional activities</p>
Credit consumption loans – Car loans	Climate change mitigation	<p>KPI based on the EPC of the car and the CO2 emissions</p> <hr/> <p>Stock of loans (only for loans granted after the date of application) and flow of loans, including targets and forward-looking information</p> <hr/> <p>Transitional activities</p>

1) Residential real estate lending

121. The European Commission sees¹⁰ the building sector as crucial for achieving the EU's energy and environmental goals. According to the Commission, buildings are responsible for approximately 40% of EU energy consumption and 36% of the greenhouse gas emissions. Buildings are therefore the single largest source of energy consumption in Europe. At present, about 35% of the buildings in the EU are over 50 years old and almost 75% of the building stock is energy inefficient. At the same time, only about 1% of the building stock is renovated each year. Finally, according to the same sources, renovation of existing buildings can lead to significant energy savings, as it could reduce the EU's total energy consumption by 5-6% and lower CO2 emissions by about 5%.

122. Given the relevance of retail lending for the EU banking sector, and in particular of the mortgage retail lending portfolio, EU banks can indeed have an impact on the environment through their lending to households, depending on the type of assets that they are financing. This is particularly the case of mortgages and real estate assets, depending for example on their distribution in terms of energy efficiency. In addition, environmental risks can have an impact on the value of the collaterals backing the mortgage portfolio, both in terms of transition and physical risks, and on the loss-given-default of the loans. For these reasons, the EBA considers that credit institutions' ESG disclosures should cover the retail lending portfolio, in particular the mortgage lending portfolio.

¹⁰ https://ec.europa.eu/energy/topics/energy-efficiency/energy-efficient-buildings/energy-performance-buildings-directive_en

123. The retail lending portfolio is composed largely of loans for house purchases collateralised by residential immovable property and credit for consumption loans.
124. To boost the energy performance of buildings, the EU has established a legislative framework that includes the Energy Performance of Buildings Directive 2010/31/EU (EPBD)¹¹ and the Energy Efficiency Directive 2012/27/EU.¹² Together, the directives promote policies that should help to achieve a highly energy efficient and decarbonised building stock by 2050.
125. The EPBD introduced the Energy Performance Certificate (EPC) as an instrument that should help improve the energy performance of buildings. It is defined as a certificate recognised by a Member State or by a legal person designated by it, which indicates the energy performance of a building or building unit, calculated according to a methodology adopted in accordance with the EPBD. In addition, according to the EPBD, all new buildings must be nearly zero-energy buildings (NZEB) from 31 December 2020. NZEB have a very high energy performance. The low amount of energy that these buildings require would come mostly from renewable sources.
126. EPCs provide information for consumers on buildings they plan to purchase or rent. They include an energy performance rating and recommendations for cost-effective improvements. Certificates must be included in all advertisements in commercial media when a building is put up for sale or rent. They must also be shown to prospective tenants or buyers when a building is being constructed, sold, or rented. After a deal has been concluded, they are handed over to the buyer or new tenant.
127. This means that from the date that EPCs became mandatory in accordance with the EPBD and its transposition in each member state, buyers of a building must have an EPC indicating the energy performance of the building. This includes households that buy a house.
128. In all countries there are registries for the EPCs issued, kept by the competent organisations/authorities. These data are publicly available in some countries but not in all. Making the data publicly available in all EU countries would facilitate the updating of EPC ratings by institutions for all mortgage loans for which there is an EPC for the collateral. Coordinated efforts at EU level in this direction would facilitate banks' risk management and disclosures.
129. The Commission's draft delegated act supplementing the Taxonomy Regulation specifies the screening criteria for the 'Building acquisition and ownership' activity. This activity relates to NACE code L68 Real estate activities. The Annex to the draft delegated act specifies different screening criteria for the acquisition of buildings built on or before 31 December 2020 and for acquisition of buildings built after 31 December 2020.
130. Buildings built before 31 December 2020 should have at least an EPC class A, in order to be aligned with the Taxonomy, according to the taxonomy screening criteria.

¹¹ <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2010:153:0013:0035:en:PDF>

¹² <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32012L0027>

131. For transactions on buildings built after 31 December 2020, in accordance with the taxonomy screening criteria, the Primary Energy Demand (PED), defining the energy performance of the building resulting from the construction, should be at least 20% lower than the threshold set for the nearly zero energy building (NZEB) requirements in national measures implementing Directive 2010/31/EU of the European Parliament and of the Council. The energy performance is certified based on the EPC.
132. Credit institutions should be able to classify their mortgage loans to households in accordance with their EPC rating. This should be possible for all new loans to households granted to purchase a house, and in regard to the stock of loans, for mortgage loans granted from the date on which the EPC rating information became mandatory.
133. The Commission's draft delegated act supplementing the Taxonomy Regulation also specifies criteria for the 'Renovation of existing buildings' activity. In this case, for the activity to be considered as sustainable, the renovation should lead to a 30% improvement in the energy efficiency of the building.
134. The following KPI is proposed as the GAR for the disclosure by institutions of the level of alignment of their residential real estate lending portfolio with the Taxonomy, for the environmental objective of climate change mitigation.
- 135. Proportion of loans to households collateralised by residential immovable property aligned with the Taxonomy, contributing to the environmental objective of climate change mitigation, compared to total loans to households collateralised by residential immovable property.**
- a. The numerator of the ratio will include the gross carrying amount of residential real estate loans aligned with the Taxonomy.
 - i. This will include loans granted to acquire buildings built before 31 December 2020 whose collateral meets the screening criteria specified by the Commission in the annex to the Taxonomy delegated act for 'Acquisition and ownership of buildings' activity for substantial contribution to climate change mitigation, based on the EPC of the building.
 - ii. In addition to loans granted to acquire buildings built after 31 December 2020 whose collateral meets the screening criteria specified by the Commission in the annex to the Taxonomy delegated act for the 'Acquisition and ownership of buildings' activity for substantial contribution to climate change mitigation, based on the EPC of the building (primary energy demand according to the EPC rating at least 20% lower than the primary energy demand resulting from the relevant NZEB requirements).

- b. The denominator will include the total gross carrying amount of loans to households collateralised by residential immovable property.
136. Credit institutions should disclose (point-in-time) information for the stock of loans as of the disclosure reference date, and information on (the flows of) new lending during the disclosure period. They should also disclose forward-looking information and information on targets.
137. In the **numerator of the ratio, credit institutions should also consider loans granted for the renovation of a building or of a house where it leads to a reduction in Primary Energy Demand of at least 30% in comparison to the energy performance of the building before the renovation** (based on the criteria proposed in the annex to the Taxonomy delegated act, for the 'Renovation of existing buildings' criteria'). When including these loans, credit institutions should avoid double counting of loans (taking into account the same loan as a building renovation loan and as a loan for the acquisition of buildings). In the event that these are not collateralised loans, they should add to the denominator the gross carrying amount of all uncollateralised loans granted for the purpose of building renovation.
138. The EBA acknowledges that it is difficult for banks to assess the compliance of loans granted for house purchases with the 'do no significant harm' (DNSH) criteria, as required by the Taxonomy. The EBA also understands that the regulation for new buildings in the EU should include requirements ensuring a level of respect with the environment and ecosystems that is largely aligned with DNSH criteria. Taking into account these premises, the EBA still considers that the KPI proposed is the most relevant proxy of the GAR for the residential real estate portfolio and to show its level of alignment with the Taxonomy, even if it is not possible to assess the DNSH criteria for each exposure.
139. The EBA also acknowledges the challenges relating to data availability and comparability. Challenges include:
- a. The availability of data on the EPCs for the stock of loans, and the need to have a phase-in period for banks to collect this data on the stock of residential mortgages. In this regard, the EBA would encourage the Commission to support central publicly available databases on EPCs for the stock of buildings.
 - b. Comparability of EPC labels across countries, as labels are not yet subject to the same methodologies. To address this point, banks should disclose clear information on the meaning of each label in terms of energy efficiency and consumption in the EU jurisdictions where they operate.
 - c. Credit institutions will have to rely on EPCs to certify the improvement of the building in terms of energy efficiency for house renovation loans. EPCs are not currently mandatory for house renovations. The EBA would support the extension

of the mandatory character of the EPC not only to cases of acquisition/rental of buildings, but also in cases of house renovation.

140. The EBA proposes to define a phase-in period in line with the transitional period envisaged in the EBA Guidelines on Loan Origination and Monitoring¹³ for the collection on a bilateral basis of information relevant for the loan monitoring process. According to the GL, where institutions do not have all the relevant information and data to be used for the monitoring of existing borrowers or credit facilities granted before the application date, they should collect the missing information and data by 30 June 2024 (i.e. a phase-in period of three years following the application date of the GL in June 2021), through regular credit reviews of borrowers.
141. A transition period until June 2024 is proposed for the disclosure of information on the stock of residential real estate loans. For new lending, banks should start requesting the relevant information in the loan origination process and no transition period is proposed.
142. During the transitional period, institutions should apply proxies for the calculation and disclosure of the GAR for residential real estate lending. Proxies could be based on the application of taxonomy-aligned coefficients by NACE sector, estimated by an independent EU body¹⁴.

2) Retail - Credits for consumption

143. The EBA acknowledges that there is a wide heterogeneity of loans in terms of purpose of the loan under this portfolio, for which there is no methodology or supporting evidence that would allow the bank to determine whether they are or are not related to taxonomy-aligned activities.
144. Further, a large part of these loans are granted to households for the acquisition of motor vehicles (car loans). A KPI is proposed for new car loans, defined on the basis of the vehicle's energy performance certificate. For the purpose of identifying exposures that are aligned with the Taxonomy, the institution should apply the criteria defined in the Commission's draft delegated act for the activity 'Transport by motorbikes, passenger cars and light commercial vehicles', and that define as complying with the Taxonomy those cases where the vehicle has specific CO₂ emissions below 50gCO₂/km – threshold applicable until 13 December 2025 – or zero emissions (from 1 January 2026).
145. Institutions shall consider those 'car loans' granted from the date of application of the disclosure requirements, both for the KPI for stock and for new loans. Given the short-term nature of these loans, an update of the stock of loans granted before the application date shall not be considered.

¹³ <https://www.eba.europa.eu/regulation-and-policy/credit-risk/guidelines-on-loan-origination-and-monitoring>

¹⁴ Like the [JRC-UZH Taxonomy-alignment tool](#) for the objective of climate change mitigation.

3) Retail – other considerations

146. The EBA proposal includes KPIs for exposures to financing activities aligned with the Taxonomy only for the objective of climate change mitigation, as the EBA has not found relevant criteria or supportive information similar to the energy performance certificate that could be used to propose a similar KPI for the objective of climate change adaptation.

147. The EBA has considered the possibility of adding to retail KPIs the loans granted for the renovation of buildings for the implementation of physical and non-physical solutions ('adaptation solutions') for the reduction of physical climate risks. Further, the technical criteria proposed by the Commission's Taxonomy delegated act for this activity¹⁵, seem too difficult to assess for retail counterparties and there is no supporting document similar to the EPC to help institutions understand whether or not the criteria have been met.

148. Given the challenges in identifying these exposures, the EBA proposes to leave these types of loans out of the scope of the GAR at this stage.

(iv) GAR for exposures to NFC not subject to NFRD disclosure obligations (including small- and medium-sized enterprises – SMEs)

Figure 8: GAR for exposures to NFC not subject to NFRD disclosure obligations (including small and medium-sized enterprises – SMEs (including other NFC not subject to NFRD disclosure obligations))

Environmental objectives	Type of exposure	First intermediate KPI	Second intermediate KPI	Green asset ratio (GAR)
Climate change mitigation	Loans and advances to non-NFRD NFC collateralised by immovable commercial property/building renovation loans.			
		Proportion of loans and advances collateralised by residential immovable property plus building renovation loans aligned with the Taxonomy, compared to total loans to non-NFRD NFC collateralised by residential immovable property		
Stock and flow, including targets and forward-looking information				

¹⁵ 1. Renovation of existing buildings. Substantial contribution to climate change adaptation: The economic activity has implemented physical and non-physical solutions ('adaptation solutions') that reduce the most important physical climate risks that are material to that activity. The physical climate risks that are material to the activity have been identified from those listed in Appendix A to this Annex by performing a robust climate risk and vulnerability assessment. The assessment is proportionate to the scale of the activity and its expected lifespan, such that:

2. (a) for investments in adaptation solutions activities with an expected lifespan of less than 10 years, the assessment is performed, at least, by using downscaling of climate projections;

3. (b) for all other activities, the assessment is performed using high resolution, state-of-the-art climate projections across a range of future scenarios consistent with the expected lifetime of the activity, including, at least, 10 to 30 years climate projections scenarios for major investments.

4. The climate projections and assessment of impacts are based on best practice and available guidance and take into account the open source models, the best available science for vulnerability and risk analysis and related methodologies in accordance with the most recent Intergovernmental Panel on Climate Change reports and scientific peer-reviewed publications.

Environmental objectives	Type of exposure	First intermediate KPI	Second intermediate KPI	Green asset ratio (GAR)	
Climate change mitigation	Debt securities and other loans and advances and equity instruments of non-NFRD NFC.	Proportion of debt securities/other loans and advances/equity instruments financing economic activities in sectors covered by the Taxonomy for the objective of climate change mitigation, compared to total debt securities/other loans and advances/equity instruments-	Proportion of debt securities/other loans and advances/equity instruments financing taxonomy-compliant economic activities for the objective climate change mitigation, compared to debt securities/other loans and advances/equity instruments financing economic activities in sectors covered by the Taxonomy for the objective of climate change mitigation.	Proportion of debt securities/other loans and advances/equity instruments financing taxonomy-compliant economic activities for the objective of climate change mitigation, compared to total debt securities/other loans and advances/equity instruments.	
				Of which, enabling activities	Of which, enabling activities
				Of which, transitional activities	Of which, transitional activities
Stock and flow KPI, including targets and forward-looking information					
Climate change adaptation	Debt securities and other loans and advances and equity instruments of non-NFRD NFC.	Proportion of debt securities/other loans and advances/equity instruments financing economic activities in sectors covered by the Taxonomy for the objective of climate change adaptation, compared to total debt securities/other loans and advances/equity instruments.	Proportion of debt securities/other loans and advances/equity instruments financing taxonomy-compliant economic activities for the objective of climate change adaptation, compared to debt securities/other loans and advances/equity instruments financing economic activities in sectors covered by the Taxonomy for the objective of climate change adaptation.	Proportion of debt securities/other loans and advances/Equity instruments financing taxonomy-compliant economic activities for the objective of climate change adaptation compared to total debt securities/other loans and advances/equity instruments.	
				Of which, enabling activities	Of which, enabling activities
				Of which, adaptation activities	Of which, adaptation activities
Stock and flow, including targets and forward-looking information					
Other environmental activities	Debt securities and other loans and advances and equity instruments of non-NFRD NFC.	The same ratios for each of the other four environmental objectives included in Article 9 of the Taxonomy Regulation, once the screening criteria have been defined. That is: (c) the sustainable use and protection of water and marine resources; (d) the transition to a circular economy; (e) pollution prevention and control; (f) the protection and restoration of biodiversity and ecosystems.			
			Stock and flow, including targets and forward-looking information		

149. The challenges in terms of availability of data from credit institutions' counterparties is particularly crucial in the case of SMEs. The consultation on the non-financial reporting directive published by the Commission in 2020 included questions on the possibility of extending the scope of application of the NFRD to SMEs based on simplified and maybe even voluntary disclosure requirements, an extension that would be very much supported by the EBA. If this is

eventually the case, a simplified disclosure framework for SMEs may address the issue of availability of data. In the meantime, the EBA proposes the following approach:

150. For loans and advances to SMEs collateralised by immovable commercial property or extended for building renovations, the same KPI and methodology defined for the GAR for residential real estate lending, and for the objective of climate change mitigation, based on the EPC, should apply:

151. Proportion of loans to SMEs collateralised by commercial immovable property, and house renovation loans, aligned with the Taxonomy, compared to total loans to SMEs collateralised by commercial immovable property.

- a. The methodology for the computation of the numerator and denominator would be the same as the methodology proposed for residential real estate lending. The proposals in terms of the transitional period, and proxies to be applied during the transitional period, are also the same.

152. For debt securities, other loans and advances to SMEs and equity instruments, credit institutions should classify their exposures by sector (NACE code 4 levels) and identify the exposures to sectors covered by the Taxonomy regulation. For the calculation of the percentage of taxonomy-aligned exposures, credit institutions should, on a best effort basis, collect information from their counterparties, on a bilateral basis, through the regular credit review and monitoring of borrowers. Only if the SME is not able to provide the relevant data, credit institutions should make use of coefficients and proxies that independent EU bodies may provide¹⁶. Credit institutions could then estimate and disclose the GAR, in a similar way to those defined for NFCs subject to NFRD disclosure obligations. Each debt security or loan can only be considered once, and can contribute to only one environmental objective. If there are loans that could be eligible for more than one environmental objective, the institution shall allocate it to the most relevant one.

153. It is worth noting the case of corporates with between 250 and 500 employees. These corporates do not fall under the definition of SMEs but are not within the scope of application of the NFRD either and therefore will not be required to disclose information in accordance with Article 8 of the Taxonomy Regulation. One of the proposals in the NFRD consultation is to extend the scope of application of the NFRD at least to corporates with between 250 and 500 staff; the EBA would strongly support the extension of the scope of application of the NFRD. If this is eventually the case, then these corporates will have to disclose meaningful information and should be treated as any other corporate with disclosure requirements under the NFRD and apply the methodology advised for those cases. Meanwhile, the EBA's advice is to cover the

¹⁶ Like the JRC-UZH taxonomy alignment coefficients by NACE sector for the objective of climate change mitigation - [JRC-UZH Taxonomy-alignment tool](#)

Alessi, L., Battiston, S., Melo, A. S., & Roncoroni, A. (2019). The EU Sustainability Taxonomy: a financial impact assessment. JRC Technical Reports. <https://doi.org/10.2760/347810>.

disclosure of exposures to these corporates that are not SMEs but are not subject to disclosure obligations under the NFRD using the same approach as for SMEs.

- 154.** For disclosures involving corporates not subject to NFRD disclosure obligations, including SMEs, when assessing general purpose lending/financing with unknown use of proceeds, credit institutions and their counterparties may focus their assessment on the main economic activity of the corporate, that is, on their main source of turnover, in order to determine the overall alignment of the corporate with the Taxonomy Regulation.
- 155.** Given the challenges linked to the fact that these counterparties are not subject to NFRD disclosure obligations, the EBA proposes a phase-in period similar to that for retail exposures and in line with the transitional period envisaged in the EBA Guidelines on Loan Origination and Monitoring for the collection on a bilateral basis of information relevant for the loan monitoring process. According to the GL, where institutions do not have all the relevant information and data to be used for the monitoring of existing borrowers or credit facilities granted before the application date, they should collect missing information and data by 30 June 2024 (i.e. a phase-in period of three years following the application date of the GL in June 2021), through regular credit reviews of borrowers.
- 156.** A transition period until June 2024 is proposed for the disclosure of information on the stock of exposures to SMEs and other NFC not subject to NFRD disclosure obligations. For new lending, banks should start requesting the relevant information in the loan origination process and no transition period is proposed.
- 157.** In order to facilitate the assessment of these corporates not subject to NFRD disclosure obligations, and for the purpose of assessing general purpose lending/financing banks may focus on the main economic activities of the corporate, that is, on its main sources of turnover, rather than assessing all the activities it carries out.

(v) GAR for loans and advances financing public housing

Figure 9: GAR Local government/municipalities exposures

Type of exposure	Environmental objective	Green asset ratio (GAR)
Loans collateralised with residential real estate/granted for acquisition of residential real estate	Climate change mitigation	<p>Proportion of loans to municipalities financing public housing aligned with the Taxonomy, compared to total loans to municipalities financing public housing</p> <p>Stock and flow, including targets and forward-looking information</p>

158. Exposures to general governments are, in principle, outside the scope of the proposed disclosures at this stage. Nevertheless, exposures to local governments and municipalities can be very relevant for some types of institutions such as public banks, in cases where the bulk of their business is to fund public housing.

159. In the case of public banks whose business model is to a great extent to finance public housing, a KPI on the level of compliance with the Taxonomy of the building whose purchase the bank is financing should be estimated and disclosed by the institution, according to the following guidelines.

160. Proportion of loans to municipalities financing public housing aligned with the Taxonomy, compared to total loans to municipalities financing public housing.

161. The methodology for the computation of the numerator and denominator would be the same as the methodology proposed for residential real estate lending. This means that loans granted to buy buildings built before 31 December 2020 will be compliant if they have at least an EPC class A; and if the building is built after December 2020, then it will have to meet the minus 20% threshold compared to NZEB.

162. The proposals in terms of the transitional period, and proxies to be applied during the transitional period would also be the same. Similarly, only the environmental objective of climate change mitigation is considered at this stage.

(vi) Other on-balance-sheet exposures –Reposessed real estate collateral

163. Credit institutions should assess the real estate collaterals (commercial and residential real estate) in their balance sheets that they have obtained from taking possession from their counterparties in exchange for the cancellation of a debt, and that are recognised as non-current assets held-for-sale in their balance sheets. They should assess them for the environmental objective of climate change mitigation based on the relevant taxonomy technical screening criteria.

Figure 10: GAR Retail exposures

Type of exposure	Environmental objective	Green asset ratio (GAR)
Commercial and residential real estate collateral reposessed by the credit institution and held for sale.	Climate change mitigation	<p>Proportion of commercial and residential reposessed real estate collateral aligned with the Taxonomy, compared to total commercial and residential reposessed real estate collateral.</p> <hr/> <p>Stock and flow, including targets and forward-looking information</p> <hr/> <p>Transitional activities</p>

164. The following KPI is proposed as the GAR for the disclosure by institutions of the level of alignment of their commercial and residential repossessed real estate collateral held-for-sale portfolio with the Taxonomy, for the environmental objective of climate change mitigation.

165. Proportion of commercial and residential repossessed real estate collateral aligned with the Taxonomy, compared to total commercial and residential repossessed real estate collateral.

- a. The numerator of the ratio will be the gross carrying amount of commercial and residential repossessed real estate collateral aligned with the Taxonomy.
 - i. This will include repossessed held-for-sale buildings built before 31 December 2020 that meet the screening criteria specified by the Commission in the annex to the Taxonomy delegated act for the 'Acquisition and ownership of buildings' for substantial contribution to climate change mitigation, based on the EPC of the building.
 - ii. In addition to repossessed held-for-sale buildings built after 31 December 2020 that meet the screening criteria specified by the Commission in the Annex to the Taxonomy delegated act for the 'Acquisition and ownership of buildings' for substantial contribution to climate change mitigation, based on the EPC of the building (primary energy demand according to their EPC rating at least 20% lower than the primary energy demand resulting from the relevant NZEB requirements).
- b. The denominator will include the total gross carrying amount of held-for-sale commercial and residential real estate collateral repossessed by the credit institution.

166. Credit institutions should disclose (point-in-time) information for the stock of loans as of the disclosure reference date, and information on (the flows of) new lending during the disclosure period. They should also disclose forward-looking information and information on targets.

(vii) TOTAL GAR

167. **Institutions shall disclose information on the TOTAL GAR of the institution.** This should reflect the cumulative value of the following KPIs, by adding the numerators (on taxonomy-aligned exposures) and denominators (on eligible exposures) of each KPI:

- a. Total GAR of financing activities to financial institutions, for all the environmental objectives.
- b. Total GAR of financing activities to NFC subject to NFRD disclosure obligations, for all the environmental objectives.

- c. GAR for residential real estate exposures, for the objective of climate change mitigation.
- d. GAR for retail car loans, for the objective of climate change mitigation.
- e. GAR for commercial real estate exposures to non-NFRD corporates (including SMEs), for the objective of climate change mitigation.
- f. GAR for debt securities and loans and advances to non-NFRD corporates (including SMEs) other than commercial real estate loans.
- g. GAR for loans to local governments for house financing.
- h. GAR for commercial and residential repossessed real estate collateral held for sale.

168. Together with the TOTAL GAR, credit institutions shall disclose the percentage of their total assets covered by the GAR.

169. The total GAR will cover only the objectives of climate change mitigation and climate change adaptation until the screening criteria for the other environmental objectives are defined and non-financial undertakings are required to disclose relevant information on them.

3.2.3 KPIs for off-balance-sheet exposures

(i) Green ratio for financial guarantees of corporates subject to NFRD disclosure obligations (FinGuar KPI)

Figure 11: KPI for financial guarantees (FinGuar KPI) - Corporates subject to NFRD disclosure obligations

Environmental objectives	First intermediate KPI	Second intermediate KPI	FinGuar KPI - financial guarantees
Climate change mitigation	Proportion of financial guarantees backing debt instruments (loans and advances and debt securities) of corporates subject to NFRD, financing economic activities in sectors covered by the Taxonomy for climate change mitigation, compared to total financial guarantees backing debt instruments of corporates subject to NFRD.	Proportion of financial guarantees backing debt instruments of corporates subject to NFRD, financing taxonomy-compliant economic activities contributing substantially to, or enabling, climate change mitigation, compared to financial guarantees backing debt instruments of corporates subject to NFRD financing economic activities in sectors covered by the Taxonomy for the objective of climate change mitigation.	Proportion of financial guarantees backing debt instruments of corporates subject to NFRD, financing taxonomy-compliant economic activities contributing substantially, or enabling, climate change mitigation, compared to financial guarantees backing debt securities of corporates subject to NFRD.
		Of which, enabling activities Of which, transitional activities	Of which, enabling activities Of which, transitional activities
		Stock and flow, including targets and forward-looking information	

Environmental objectives	First intermediate KPI	Second intermediate KPI	FinGuar KPI - financial guarantees
Climate change adaptation	Proportion of financial guarantees backing debt instruments of corporates subject to NFRD, financing economic activities in sectors covered by the Taxonomy for climate change adaptation, compared to total financial guarantees backing debt instruments of corporates subject to NFRD	Proportion of financial guarantees backing debt instruments of corporates subject to NFRD, financing taxonomy-compliant economic activities contributing substantially to, or enabling, climate change adaptation, compared to financial guarantees backing debt instruments of corporates subject to NFRD financing economic activities in sectors covered by the Taxonomy for the objective of climate change adaptation.	Proportion of financial guarantees backing debt instruments of corporates subject to NFRD, financing taxonomy-compliant economic activities contributing substantially, or enabling, climate change adaptation, compared to financial guarantees backing debt securities of corporates subject to NFRD.
		Of which, enabling activities Of which, adaptation activities	Of which, enabling activities Of which, adaptation activities
Stock and flow, including targets and forward-looking information			
Other environmental activities	The same ratios for each of the other four environmental objectives included in Article 9 of the Taxonomy Regulation once the screening criteria have been defined. That is: (c) the sustainable use and protection of water and marine resources; (d) the transition to a circular economy; (e) pollution prevention and control; (f) the protection and restoration of biodiversity and ecosystems		
Stock and flow, including targets and forward-looking information			

170. The methodology for the computation of the KPI for financial guarantees shall be the same as the methodology specified for the KPIs for loans and advances and/or debt securities of corporates subject to NFRD disclosure obligations, but applied to the underlying loans and advances/debt securities that the credit institution is backing.

(ii) Green ratio for assets under management (AuM KPI)

Figure 12: Green ratio for AuM - Corporates subject to NFRD disclosure obligations

Environmental objectives	First intermediate KPI	Second intermediate KPI	AuM KPI – Assets under management
Climate change mitigation	Proportion of assets under management (equity and debt instruments) from NFRD corporates financing economic activities in sectors covered by the Taxonomy for climate change mitigation, compared to total assets under management (equity and debt securities) from NFRD corporates.	Proportion of assets under management (equity and debt instruments) from NFRD corporates financing taxonomy-compliant economic activities contributing substantially to, or enabling, climate change mitigation, compared to assets under management (equity and debt instruments) from NFRD corporates financing economic activities in sectors covered by the Taxonomy for the objective of climate change mitigation.	Proportion of assets under management (equity and debt instruments) from NFRD corporates financing taxonomy-compliant economic activities contributing substantially, or enabling, climate change mitigation, compared to total assets under management (equity and debt instruments) from NFRD corporates.
		Of which, enabling activities Of which, transitional activities	Of which, enabling activities Of which, transitional activities
Stock and flow, including targets and forward-looking information			
Climate change adaptation	Proportion of assets under management (equity and debt instruments) from NFRD corporates financing economic activities in sectors covered by the Taxonomy for climate change adaptation, compared to total financial guarantees	Proportion of assets under management (equity and debt instruments) from corporates other than NFRD corporates SMEs financing taxonomy-compliant economic activities contributing substantially to, or enabling, climate change adaptation, compared to assets under management (equity and debt instruments) from NFRD corporates	Proportion of assets under management (equity and debt instruments) from NFRD corporates financing taxonomy-compliant economic activities contributing substantially, or enabling, climate change adaptation, compared to total assets under management (equity and

Environmental objectives	First intermediate KPI	Second intermediate KPI	AuM KPI – Assets under management
	backing loans and advances to NFRD corporates.	financing economic activities in sectors covered by the Taxonomy for the objective of climate change mitigation.	debt instruments) from NFRD corporates.
		Of which, enabling activities Of which, adaptation activities	Of which, enabling activities Of which, adaptation activities
	Stock and flow, including targets and forward-looking information		
Other environmental activities	The same ratios for each of the other four environmental objectives included in Article 9 of the Taxonomy Regulation once the screening criteria have been defined. That is: (c) the sustainable use and protection of water and marine resources; (d) the transition to a circular economy; (e) pollution prevention and control; (f) the protection and restoration of biodiversity and ecosystems		
	Stock and flow, including targets and forward-looking information		

171. The methodology for the computation of the KPI for Assets under Management shall be the same as the methodology specified for the KPIs for debt securities of corporates and equity instruments other than SMEs (and other non-NFRD corporates), but applied to the underlying equity and debt securities.

3.2.4 KPIs for services other than lending – Fees and commissions (F&C KPI)

172. In addition to the lending activity and related interest income, another main source of income for credit institutions is fee and commission income, a source of income that has increasing relevance in the current context of low interest rates. The source of income referred here is the fee and commission income linked to services provided by the institution, other than lending, including:

- issuance or other services related to third-party securities; reception, transmission and execution on behalf of customers of orders to buy or sell securities; merger and acquisition corporate advisory services; corporate finance services related to capital market advisory services for corporate clients or other; private banking related fees; clearing and settlement services; custody and other related services; payment services; fee and commission income for distribution of products issued by entities outside the prudential group to their current customers; loan servicing activities; foreign exchange services and international transactions (as reported by institutions in FINREP template 22.1‘Fee and commission income and expenses by activity’).

173. Credit institutions should disclose KPIs for the part of fee and commission income linked to services aligned with the Taxonomy from corporates subject to NFRD disclosure obligations. The KPIs should show the proportion of the institution’s fee and commission income derived from products or services associated with economic activities that qualify as environmentally

sustainable. This KPI will supplement the GAR, providing a more comprehensive picture of the level of alignment of the institution with the Taxonomy. The KPI should be defined as follows.

174. F&C KPI - Proportion of the institution's fee and commission income from corporates subject to NFRD disclosure obligations, derived from products or services other than lending associated with taxonomy-aligned economic activities that contribute to the environmental objective of climate change mitigation, climate change adaptation or other environmental objectives, compared to total fees and commissions from corporates subject to NFRD disclosure obligations from products or services other than lending.

- a. The numerator of the KPI will include the fee and commission income as specified in FINREP, ANNEX V, paragraph 284, from services other than lending and asset management, provided to corporates subject to NFRD disclosure obligations, associated with taxonomy-aligned activities that contribute to the objective of climate change mitigation, climate change adaptation or other environmental objectives.
- b. It will be estimated by weighting the fee and commission income from each counterparty with the proportion of taxonomy-aligned turnover of the corporate contributing to the relevant environmental objective as disclosed by the corporate in accordance with Article 8 of the Taxonomy Regulation. For financial corporations, the ratio for the counterparty to be applied shall be the same as for the GAR for these corporates.
- c. The denominator will be the total amount of fee and commission income from **corporates subject to NFRD disclosure obligations** from products or services other than lending and asset management.

175. Credit institutions will disclose this KPI initially for the objectives of climate change mitigation and climate change adaptation, and then the total KPI. The KPI will be extended to cover other environmental objectives once the screening criteria have been defined for them.

3.2.5 Other disclosures: trading portfolio

176. The trading portfolio is excluded from the calculation of the GAR of the institution for the reasons explained in the section 'Scope of application of the disclosures'. The EBA's advice is that institutions should instead provide explanations on the investment policy regarding their trading portfolio, overall composition, and on any trend in terms of predominant sectors and their level of alignment with the Taxonomy. They should also explain potential limits in terms of environmental risks, and targets in terms of the level of alignment with the Taxonomy.

177. In those cases where the trading portfolio has a more predominant role in the business model of the credit institution, and its size is above a combined threshold, the EBA's advice is

that credit institutions should provide separate, more granular, quantitative information and a specific KPI for their trading book (Trading KPI).

178. **In particular, those credit institutions that do not meet the conditions set out in Article 94(1) of the CRR or the conditions set out in Article 325a (1) of the CRR should disclose quantitative information and KPIs that show to what extent the institution is trading with environmentally sustainable assets and to what extent it is contributing to promoting the trading of this type of asset.**

179. For this purpose, the credit institution should disclose the following information:

- a. Total trading during the disclosure period in taxonomy-aligned instruments, including absolute purchases plus absolute sales of taxonomy-aligned securities.
- b. Total trading during the disclosure period of eligible securities, including total absolute purchases plus total absolute sales of eligible securities.
- c. **Trading KPI: Ratio of absolute purchases plus absolute sales of taxonomy-aligned securities compared to total absolute purchases plus total absolute sales of eligible securities.**

180. **Eligible assets for the computation of the ratio should include equity instruments and debt securities issued by corporates subject to NFRD disclosure obligations.** The numerator of the ratio will be estimated by weighting the gross carrying amount of debt securities and equity instruments purchased/sold from each counterparty with the proportion of taxonomy-aligned turnover of the corporate (for NFC) contributing to the relevant environmental objective as disclosed by the corporate in accordance with Article 8 of the Taxonomy Regulation. For financial corporations, the ratio for the counterparty to be applied shall be the same as for the GAR for these counterparties.

3.2.6 Timeline for the disclosures

(i) Timeline for the disclosure of KPIs related to exposures or services to corporates subject to NFRD disclosure obligations (GAR, FinGuar KPI and AuM KPI, F&C KPI, Trading KPI)

181. All corporates under the scope of application of the NFRD, including credit institutions, have to start disclosing information in accordance with Article 8 of the Taxonomy Regulation from January 2022, for the financial year 2021. This means that credit institutions will have to start disclosing information at the same time as their counterparties, on whose information they have to rely for their own disclosures. Therefore, the information from their counterparties will not be available for the first disclosure date.

182. The challenge in terms of availability of data is not the same for new lending (KPIs for flows) as for the stock of loans (KPIs for point-in-time stock), as institutions should be able to collect

the relevant information from their counterparties for new loans in the loan origination process. Credit institutions should be able to update this information for any new loan granted from the date on which their counterparties can make this information available.

183. Meanwhile, KPIs for stock refer to the stock of loans, bonds, equity and financial guarantees in institutions' balance sheets as of the disclosure reference date. Institutions should be able to start updating the information on their stock once it is available and publicly disclosed by their counterparties and within a phase-in period of one year, i.e. by December 2022.

184. During the phase-in period institutions should be able to disclose information on the volume of exposures/revenues to taxonomy-relevant sectors, and proxy information on estimates and ranges of taxonomy-aligned activities on a best effort basis, based on:

- a. Counterparties disclosures on the basis of international standards (e.g. TCFD), and consistent with the NFRD, when available; institutions should in this case explain the type of information available and the standards applied;
- b. Private information consistent with the NFRD communicated bilaterally to the institution;
- c. Using as a fallback solution relevant proxies and coefficients on taxonomy alignment by sector, estimated by an independent Commission body, like the JRC/UZH alignment coefficients developed for the objective of climate change mitigation at sector aggregate level¹⁷.

185. Credit institutions should explain the disclosures provided during the transition period, the extent to which coefficients and proxies, including JRC/UZH taxonomy-aligned coefficients, are applied and the use of any other estimates and proxy information for the disclosure of estimates and ranges.

(ii) Timeline for the disclosures related to exposures to corporates not subject to NFRD disclosure obligations, including SMEs, and to households

186. The EBA advises the establishment of a phase-in period in line with the transitional period envisaged in the EBA Guidelines on Loan Origination and Monitoring for the collection, on a bilateral basis, of information relevant for the loan monitoring process. Where institutions do not have all the relevant information and data to be used for the monitoring of existing borrowers or credit facilities granted before the application date, they should collect the missing information and data by 30 June 2024, through regular credit reviews of borrowers.

¹⁷ JRC-UZH_Taxonomy-alignment_tool

Alessi, L., Battiston, S., Melo, A. S., & Roncoroni, A. (2019). The EU Sustainability Taxonomy: a financial impact assessment. JRC Technical Reports. <https://doi.org/10.2760/347810>

187. A similar transition period, until June 2024, is proposed for the disclosure of information on the stock of exposures. For new lending, banks should start requesting the relevant information in the loan origination process and no transition period is proposed.
188. During the transitional period, institutions could apply proxies for the calculation and disclosure of the GAR in terms of estimates and ranges. Proxies could be based on institutions' assessments, other public information, or as a fallback solution, on coefficients estimated by an independent EU body (like the coefficients provided by the [JRC-UZH Taxonomy alignment tool](#) for the objective of climate change mitigation and for the relevant sector).¹⁸
189. Credit institutions should explain the disclosures provided during the transition period, the extent to which coefficients, like the JRC/UZH taxonomy-aligned coefficients¹⁹, are applied and the use of any other estimates and proxy information for the disclosure of estimates and ranges.

(iii) Date of application of the disclosures

190. The Commission's CfA asks the ESAs to analyse whether existing activities should be covered retroactively or only those relevant to the time period as of the when the disclosure rules start to apply²⁰.
191. Given the challenges exposed above, linked to the fact that, to a great extent, credit institutions will have to rely on their counterparties' disclosures for their own disclosures, and that a phase-in period has been proposed to address this issue, the EBA does not consider it feasible to request credit institutions to extend their disclosures retroactively beyond the financial year prior to the date of application of Article 8 of the Taxonomy Regulation.
192. This means that for those disclosures that are applicable from 1 January 2022, the first disclosure should cover the financial year 2021 only, and for those disclosures applicable from 1 January 2023, the first disclosure should cover the financial year 2022 only.

3.2.7 EBA Advice to the Commission – Quantitative disclosures

EBA advice to the Commission – Quantitative disclosures

193. **GAR – On-balance-sheet exposures in the banking book** - Credit institutions should estimate and disclose their green asset ratio (GAR) for on-balance-sheet exposures for eligible assets and counterparties, by applying the methodology proposed in this section. They should also estimate and disclose the percentage of total assets (on-balance-sheet) covered by the

¹⁹ [JRC-UZH Taxonomy-alignment tool](#)

Alessi, L., Battiston, S., Melo, A. S., & Roncoroni, A. (2019). The EU Sustainability Taxonomy: a financial impact assessment. JRC Technical Reports. <https://doi.org/10.2760/347810>

²⁰ According to the CfA, the disclosures under Article 8 apply as of 1 January 2022 for the environmental objectives of climate change mitigation and adaptation, and as of 1 January 2023 for the other four. The obligations relate to the previous financial year respectively (the disclosure obligation for 1 January 2022 covers the financial year 2021, the disclosure obligation for 1 January 2023 covers the financial year 2022)

green asset ratio. They should disclose the quantitative data supporting the calculation of the KPI by using the templates proposed in Annex I to this report.

194. Those banking groups with subsidiaries outside the EU should disclose their GAR for EU exposures and separate information for non-EU business: for the latter they should identify lending and equity exposures in the banking book to non-EU counterparties that pertain to sectors (NACE sectors 4 levels of detail) covered by the Taxonomy. Then, proxies should be used to determine on a best effort basis the part of those exposures aligned with the Taxonomy, and disclose this information separately from the EU GAR and with appropriate caveats.

195. **F&C KPI – Fee and commission income from services other than lending and asset management** - Credit institutions should estimate and disclose the fee and commission KPI (F&C KPI) for services to corporates subject to NFRD disclosure obligations other than lending and asset management, by applying the methodology proposed in this section.

196. **For off-balance-sheet exposures** credit institutions should estimate and disclose the following KPIs by applying the relevant methodology described in this section:

- FinGuar KPI - Credit institutions should estimate and disclose the KPI for financial guarantees (FinGuar KPI) for eligible off-balance-sheet assets and counterparties, by applying the methodology proposed in this section. They should also disclose the quantitative data supporting the calculation of the KPI by using the templates proposed in Annex I to this report.
- AuM KPI - Credit institutions should estimate and disclose the KPI for assets under management (AuM KPI) for eligible off-balance-sheet assets and counterparties, by applying the methodology proposed in this section. They should also disclose the quantitative data supporting the calculation of the KPI by using the templates proposed in Annex I to this report.

197. The trading portfolio should be excluded from the calculation of the GAR of the institution for the reasons explained in the section 'Scope of application of the disclosures'.

198. On the trading book, credit institutions shall disclose the following information:

- Credit institutions should provide explanations on the investment policy relating to their trading portfolio, overall composition, and on any trend in terms of predominant sectors and their level of alignment with the Taxonomy. They should also explain potential limits in terms of environmental risks, and, if relevant, targets in terms of the level of alignment with the Taxonomy.
- Those credit institutions that do not meet the conditions set out in Article 94(1) of the CRR or the conditions set out in Article 325a(1) of the CRR should disclose the **Trading KPI** - Ratio of absolute purchases plus absolute sales of taxonomy-aligned securities compared to total absolute purchases plus total absolute sales of eligible securities. They should apply the methodology proposed in this section. It should cover debt securities and equity instruments

issued by NFRD corporates. They should also disclose the quantitative data supporting the calculation of the KPI by using the templates proposed in Annex I to this report.

199. EBA advice on timeline of disclosures:

- Phase-in period **until December 2022** for KPIs for stock (GAR, FinGuar KPI and AuM KPI) on exposures to NFRD corporates, and **until June 2024** for exposures to retail, and non-NFRD corporates. During the transition period, banks should disclose the information described in this document.
- For the F&C KPI and Trading KPI, which apply to NFRD counterparties only, the transition period should be **until December 2022**. During the transition period, banks should disclose the information described in this document.
- **The first disclosure for the financial year 2021 should not apply retroactively:** For those disclosures that are applicable from 1 January 2022, the first disclosure should cover the financial year 2021 only, and for those disclosures applicable from 1 January 2023, the first disclosure should cover the financial year 2022 only.

200. Figure 12 provides an overview of the KPIs and information on taxonomy-aligned exposures that credit institutions should be required to disclose, in accordance with the methodology provided in section 3.2 of this document. Credit institutions should be required to disclose this information using the templates included in Annex I to this document.

Figure 13: Summary of proposed KPIs for taxonomy-aligned activities, explained in this section of the document

	Type of counterparty	KPI banking book - Proportion of on-balance-sheet exposures financing activities with sectors covered by the Taxonomy								
		Of which: Stock of exposures	Of which: New exposures	Of which aligned with the taxonomy:				Type of exposures	Disclosure of estimates during transition period based on proxies	Transition period
				Of which: Stock of exposures		Of which: New exposures				
				Of which: Transitional/adaptation activities	Of which: Enabling activities	Of which: Transitional/adaptation activities	Of which: Enabling activities			
Climate change mitigation GAR	Financial institutions	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	EU: L&A, debt securities, equity (not HfT). KPI by type of counterparty	Yes	Dec-22 (stock of loans)
	NFRD NFCs	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	EU: L&A, debt securities, equity (not HfT). KPI by type of counterparty	Yes	Dec-22 (stock of loans)
	SMEs (including other non-NFRD corporates)	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	EU: L&A, debt securities, equity (not HfT). KPI by type of counterparty	Yes	Jun-24 (stock of loans)
	Retail	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	EU: Residential real estate (acquisition and renovation) based on collateral EPC, and car loans (not HfT). KPI by type of instrument and aggregate by type of counterparty	Yes	Jun-24 (stock of loans)
	Municipalities /local governments	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	EU: Housing loans not HfT	Yes	Jun-24 (stock of loans)
	Repossessed real estate collaterals	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	NA	Yes	No transition period

	Type of counterparty	KPI banking book - Proportion of on-balance-sheet exposures financing activities with sectors covered by the Taxonomy								
		Of which: Stock of exposures	Of which: New exposures	Of which aligned with the taxonomy:				Type of exposures	Disclosure of estimates during transition period based on proxies	Transition period
				Of which: Stock of exposures		Of which: New exposures				
				Of which: Transitional/adaptation activities	Of which: Enabling activities	Of which: Transitional/adaptation activities	Of which: Enabling activities			
	AGGREGATE (on-balance-sheet) CCM GAR	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	EU AGGREGATE FOR ALL TYPE OF ON-BALANCE SHEET EXPOSURES not HfT (including info on % of balance sheet covered)	Yes	Jun-24 (stock of loans)
Climate change adaptation GAR	Financial institutions	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	EU: L&A, debt securities, equity (not HfT). KPI by type of counterparty	At a minimum information on exposures to-taxonomy-relevant sectors	Dec-22 (stock of loans)
	NFRD NFCs	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	EU: L&A, debt securities, equity (not HfT). KPI by type of counterparty	as above	Dec-22 (stock of loans)
	SMEs and other non-NFRD corporates)	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	EU: L&A, debt securities, equity (not HfT). KPI by type of counterparty and aggregate for financing	as above	Jun-24 (stock of loans)
	AGGREGATE (on-balance sheet) CCA GAR	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	EU AGGREGATE FOR ALL TYPE OF ON-BALANCE SHEET EXPOSURES not HfT (including info on % of balance sheet covered)	as above	Jun-24 (stock of loans)
<i>Other environmental objectives*</i>	NFRD NFCs	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	<i>L&A, debt securities, equity, financial guarantees, AuM</i>	<i>NA (disclosure requirement not applicable yet)</i>	<i>NA (disclosure requirement not applicable yet)</i>

	Type of counterparty	KPI banking book - Proportion of on-balance-sheet exposures financing activities with sectors covered by the Taxonomy								
		Of which: Stock of exposures	Of which: New exposures	Of which aligned with the taxonomy:				Type of exposures	Disclosure of estimates during transition period based on proxies	Transition period
				Of which: Stock of exposures		Of which: New exposures				
				Of which: Transitional/adaptation activities	Of which: Enabling activities	Of which: Transitional/adaptation activities	Of which: Enabling activities			
	SMEs and other non-NFRD NFCs	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	L&A, debt securities, equity, financial guarantees, AuM	NA (disclosure requirement not applicable yet)	NA (disclosure requirement not applicable yet)
TOTAL GREEN ASSET RATIO OF THE INSTITUTION (GAR)**	AGGREGATE (on-balance-sheet) TOTAL GAR	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	EU AGGREGATE FOR ALL TYPE OF ON-BALANCE SHEET EXPOSURES not HfT (including info on % of balance sheet covered)	Yes (for climate change mitigation)	Jun-24 (stock of loans)
Off balance-sheet exposures										
Climate change mitigation	NFRD corporates	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	Separate for financial guarantees (Fin.Guar KPI) and for AuM (AuM KPI)	Yes	Dec-22 (stock)
Climate change Adaptation	NFRD corporates	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	Separate for financial guarantees (Fin.Guar KPI) and for AuM (AuM KPI)	At a minimum information on exposures towards taxonomy-relevant sectors	Dec-22 (stock)
Total	AGGREGATE (on-balance-sheet) TOTAL GAR	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	% and M. Euro	Separate for financial guarantees (Fin.Guar KPI) and for AuM (AuM KPI)	Yes	Dec-22 (stock)

*High level proposal to be revised and specified when there are technical screening criteria

**The total GAR will initially cover the environmental objectives of CCM and CCA, and will be then extended to the other four environmental objectives once there are relevant screening criteria and disclosure obligation

		KPI - Proportion of fees and commissions generated by sectors covered by the Taxonomy				
			Of which: Aligned with the Taxonomy (breakdown for enabling and transitional activities)	Type of activities	Disclosure of estimates during transition period based on proxies	Transition period
Climate change mitigation F&C KPI	NFRD Corporates	% and M. Euro	% and M. Euro	Services other than lending and asset management to NFRD Corporates	Yes	Dec-22
Climate change adaptation F&C KPI	NFRD Corporates	% and M. Euro	% and M. Euro	Services other than lending and asset management to NFRD Corporates	At a minimum, information on exposures to taxonomy-relevant sectors	Dec-22
Total Net F&C income alignment F&C KPI	NFRD Corporates	% and M. Euro	% and M. Euro	Services other than lending and asset management to NFRD Corporates	Yes	Dec-22
		KPI for the trading book portfolio - Absolute purchases and sales of debt securities and equity instruments - Sectors covered by the Taxonomy				
			Of which: Aligned with the Taxonomy (breakdown for enabling and transitional activities)	Type of exposures	Disclosure of estimates during transition period based on proxies	
Climate change mitigation Trading KPI	NFRD Corporates	% and M. Euro	Climate change mitigation	Debt securities and equity instruments issued by NFRD Corporates	Yes	Dec-22
Climate change adaptation Trading KPI	NFRD Corporates	% and M. Euro	Climate change adaptation	Debt securities and equity instruments issued by NFRD Corporates	At a minimum, information on exposures to taxonomy-relevant sectors	Dec-22
Total Trading KPI	NFRD Corporates	% and M. Euro	Climate change mitigation	Debt securities and equity instruments issued by NFRD Corporates	Yes	Dec-22

4. Advice for investment firms

201. The Commission's CfA includes two specific questions addressed to the EBA on the type of information and KPIs that investment firms should disclose in order to show their level of alignment with the EU Taxonomy, and on the type of activities that should be considered in these disclosures. In particular, the CfA puts forward the following questions regarding investment firms' disclosures and related KPIs:

- a. Which economic activities should be included/excluded?
- b. What should the numerator and the denominator for a specific KPI represent for investment firms?

4.1 Quantitative disclosures, KPIs and methodology

4.1.1 Scope of the disclosures

202. Section A and Section B of Annex I of Directive 2014/65/EU lists investment services and activities, and ancillary services carried out by investment firms. For the purposes of the KPIs and methodology in the framework of investment firms' disclosures, it is reasonable to categorise investment firms' activities as:

- a. dealing on own account²¹;
- b. other than dealing on own account²²; and
- c. ancillary services²³.

203. **Investment firms dealing on own account** decide on investment activities and take positions in the markets either on their behalf or on behalf of clients. Investment firms in such cases would have a direct impact on the capital allocation and promotion of sustainable finance. To this end, the design of the KPIs will focus on the value of the investments of the investment firms.

204. Investment firms' **investment services and activities other than dealing on own account** may have an indirect impact on the allocation of capital and promotion of sustainable finance in EU markets. However, when investment firms carry out these services and activities, they do not take investment decisions. Consequently, the design of the relevant KPIs will focus on fees,

²¹ As per Point 3 of Section A of Annex I of Directive 2014/65/EU

²² Section A of Annex I of Directive 2014/65/EU, with the exception of point 3

²³ Section B of Annex I of Directive 2014/65/EU

commissions and other monetary benefits investment firms generate from these investment services and activities.

205. **Ancillary services** are excluded from the scope because the direct or indirect link between these services and the objectives and destination of the ultimate investment is uncertain and may not be meaningful.

206. To that end, the EBA's advice is that the investment services and activities that should be covered in the disclosure requirements under Article 8 of the Taxonomy Regulation should include:

- a. Reception and transmission of orders in relation to one or more financial instruments;
- b. Execution of orders on behalf of clients;
- c. Dealing on own account;
- d. Portfolio management;
- e. Investment advice;
- f. Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis;
- g. Placing of financial instruments without a firm commitment basis;
- h. Operation of an MTF;
- i. Operation of an OTF.

207. While investment firms may not have substantial impact on their clients' investment decisions in these types of investment services and activities, disclosure is necessary to show the level of alignment with the taxonomy of investment firms' activities and transparency may also influence the direction of investment behaviour.

EBA advice to the Commission

208. Disclosure KPIs and methodology should cover and be designed separately for the following services:

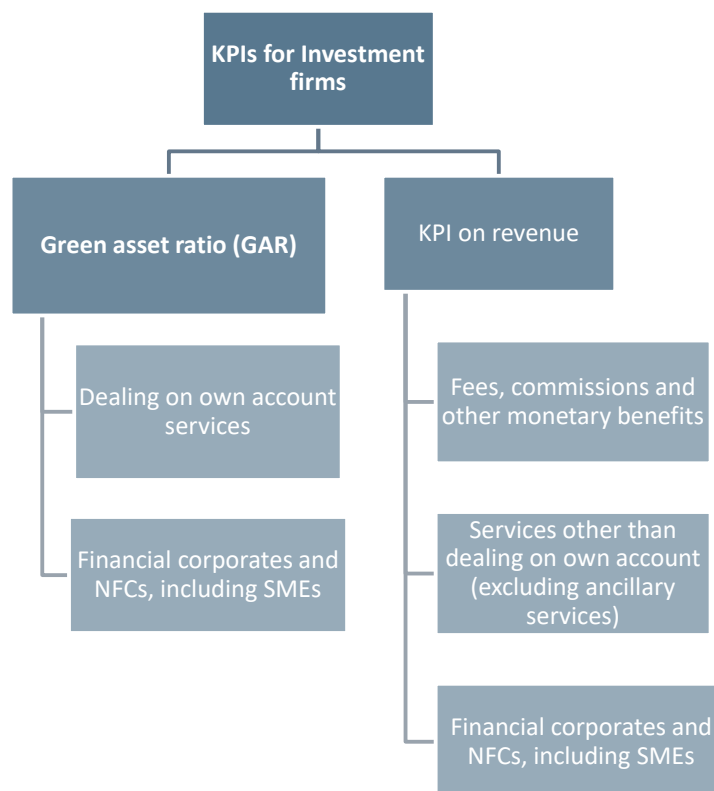
- Investment firms dealing on own account activities, regardless whether the firms are principal traders or dealing on behalf of their clients (see point 3 of Section A of Annex I of Directive 2014/65/EU; and

- Investment firms' investment services and activities other than dealing on own account (Section A of Annex I of Directive 2014/65/EU with the exception of point 3).

209. This distinction is important because in the former the investment firms take investment decisions and hence have a significant impact on the distribution of capital in markets and in the orientation of flows into sustainable finance. In the latter type of services, the final decision does not lie with the investment firms and the link between the final investments and the services provided is less clear, but disclosure is still necessary to understand the level of alignment of investment firms' activities with the Taxonomy.

210. The EBA is advising the exclusion of ancillary services from the scope of the disclosures due to lack of a clear link between the ancillary services provided and the final investment decisions.

Figure 14: Investments: investment services and dealing on own account



211. For the purposes of investment firms' disclosures under Article 8 of the Taxonomy Regulation, the EBA is proposing the metrics presented in Figure 15 and in Figure 16.

4.1.2 Investment services and dealing on own account

Figure 15: Investments: investment services and dealing on own account

	Total assets	Assets covered by the EU Taxonomy	Assets linked to activities aligned with the EU Taxonomy
	[A]	[B]	[C]
Dealing on own account			
Of which, on own behalf			
Of which, on behalf of clients			

212. For the purposes of investment firms' disclosures relating to dealing on own account, the following KPIs are proposed:

(i) KPIs: assets

- a. Share of 'Assets of sectors covered by the EU Taxonomy' in 'Total assets', i.e. $[B] / [A]$;
- b. Share of 'Assets linked to activities aligned with the EU Taxonomy' in 'Assets of sectors covered by the Taxonomy', i.e. $[C] / [B]$; and
- c. **Share of 'Assets linked to activities aligned with the EU Taxonomy' in 'Total assets', i.e. $[C] / [A]$.**

(ii) Investee companies considered

213. For the calculation of KPIs, **the investee companies** considered include non-financial corporates subject to NFRD disclosure obligations, non-financial corporates not subject to NFRD disclosure obligations, financial institutions subject to NFRD disclosure obligations and financial institutions not subject to NFRD disclosure obligations. While the investee companies that are subject to NFRD should disclose the necessary information providing key input for investment firms' disclosures, such information is not readily available when it comes to investee companies that do not fall under the scope of the NFRD.

214. For the investment activities of the investee companies not subject to NFRD, investment firms should rely on information collected by other means, including bilateral engagement with the investee companies. As a fallback solution, investment firms should use a methodology based on proxies. This would allow investments in non-reporting entities to be included in the numerator by assigning coefficients for different industries extrapolating their taxonomy-

aligned activities from a central methodology based on estimates. The methodology developed by reputable independent bodies and authorities, e.g. the Commission's Joint Research Centre, for climate change mitigation, could be used and could be further adapted based on the forthcoming Delegated Acts on climate change mitigation and adaptation.

(iii) Investment instruments considered – Eligible assets

215. In terms of **investment instruments**, the calculation of KPIs should consider debt securities, equity instruments, cash equivalents and derivatives of investee companies.
216. Investments that are specifically earmarked to raise money for climate and environmental projects, such as green bonds complying with potential future EU Green Bond Standard, can be counted in the numerator as 100% taxonomy-aligned activities.
217. In the case of derivatives, the scope should be limited to the eligibility of the underlying asset within the EU Taxonomy, including derivatives whose underlying assets are debt securities, equity instruments or commodities. If the underlying instruments of a derivative are debt securities or equity instruments, they should be treated as in the case of debt securities or equity instruments. If the underlying instrument of a derivative is a commodity, the derivative should be treated and included in the scope of the disclosures in accordance with the eligibility of the commodity in relation to the corresponding sector and activity in the EU Taxonomy. For example, if the underlying asset of the derivative is natural gas, then the taxonomy alignment of the investment can be matched with the NACE sector or activity corresponding to natural gas.

(iv) Calculation methodology

218. 'Assets of sectors covered by the EU Taxonomy' include 'eligible' assets for sectors that are assessed under the Taxonomy regulation for the relevant environmental objective. 'Assets linked to activities aligned with the EU Taxonomy' include assets that are categorised as environmentally-sustainable according to the Taxonomy Regulation.
219. With regards to the computation of the GAR, i.e. $[C] / [A]$ for investment firms' activities dealing on own account, investment firms should rely on the information that the investee company will have to disclose in accordance with Article 8 of the Taxonomy Regulation. In particular, on the information on the proportion of their turnover derived from products or services associated with economic activities that qualify as environmentally-sustainable under Article 3 of the Taxonomy Regulation for each environmental objective included in Article 9 (% Turnover CCM; % Turnover CCA; % Turnover from each environmental objective included in points (c) to (f) of Article 9). The numerator is designed as the value of the investments weighted by the proportion of taxonomy-aligned activities (with a breakdown of transitioning and enabling activities) of the investee company, i.e. by the proportion of turnover of the investee company aligned with the Taxonomy (and contributing to or enabling the relevant environmental objective).

220. While turnover, as an indicator, is relevant and appropriate for non-financial corporates, this is not the case when the investee companies are financial institutions, including credit institutions, investment firms, asset managers and insurance companies. In the case of financial institutions, investment firms' disclosures should rely on the KPI disclosed by the financial institution in terms of environmentally-sustainable assets or investments, i.e. the KPI for financial institutions (in terms of assets or investments) would indicate the taxonomy alignment of the investment firm's eligible investments. The KPI to be considered will depend on the type of investee company and should follow the methodology defined in paragraph 110.
221. In the case of debt securities issued by the investee company with the purpose of funding specific activities or projects (i.e. other than general financing), or if the investee company has issued green bonds, investment firms shall assess them not based on the disclosures by the investee company but on the alignment with the Taxonomy criteria of the activities or projects funded, based on ad hoc information provided by the investee company for that issuance. In the case of future issuances aligned with a future potential EU green bond standard, they shall be assessed based on this standard.
222. For the denominator, 'Total assets' includes 'eligible investments' instead of taking all assets invested by investment firms on own account.
223. Sovereign investments such as sovereign bonds are excluded from the GAR calculation not because they are not a relevant investment but because there is no methodology to assess whether sovereign bonds are aligned or not with the Taxonomy (the taxonomy screening criteria are not applicable to them), and they are not subject to standardised disclosure obligations. Therefore, in most cases, investment firms would not be in a position to collect information to verify the final use of investment from state authorities.
224. Similarly, non-EU exposures are excluded from the GAR because the EU Taxonomy does not cover non-EU exposures and it would be challenging for the investment firms to collect such information on investments taking place in third countries. If such information were collected, its consistency and comparability would be questionable. It is however necessary to consider a separate KPI for investments that are outside the EU. The EBA is following this practice in its advice on credit institutions' disclosures under Article 8.

Simplified illustration for the calculation of KPI [C] / [A] above:

An investment firm dealing on own account has invested EUR 150 million in equity and corporate bonds. Only EUR 100 million of this investment is eligible under EU Taxonomy; that is the total assets considered for the KPI. Hence, EUR 100 million becomes the denominator of the KPI.

The investee companies receiving the EUR 100 million investment report under NFRD, therefore the investment firm in question would rely on the information reported by the investee company.

On a weighted average basis, the investee company reports 30% of its turnover contributing to sectors and activities aligned with the EU Taxonomy. Therefore, the taxonomy alignment of this investment from the investment firm's point of view is 30%. The investment firm should report this ratio in order to indicate the taxonomy-compliance of its activity.

It is also calculated that the share of assets eligible under EU Taxonomy is 67%.

For purposes of illustration, in addition to this, if the investment firm has an additional investment of EUR 5 million in green bonds fully complying with a future potential EU Green Bonds Standard, it can add up the EUR 5 million investment in green bonds as this investment receives a 100% weight in the numerator.

The overall alignment of the investment would then be approximately 33.3%, that is $((30+5)/105)*100$.

EBA advice to the Commission

225. The EBA's advice is to introduce a GAR for the 'dealing on own account' activities of the investment firms. The disclosure of the GAR would capture the share of 'assets linked to activities aligned with the EU Taxonomy' in total eligible assets.

226. This ratio should focus on investment firms' investments including debt securities, equity instruments and derivatives (those with eligible underlying assets, including debt and equity securities and commodities) in investee companies that are NFC and financial corporates. In this case, sovereign bonds and investments outside the EU should be left outside the scope of calculation of the GAR.

227. When it comes to derivatives, when the underlying asset is a commodity, the scope should be limited to the eligibility of the underlying asset within the EU Taxonomy.

228. The calculation of the GAR should be based on the information on the proportion of the investee company's turnover derived from investment related products or services associated with economic activities that qualify as environmentally sustainable in accordance with the sustainable objectives, e.g. climate change mitigation and adaptation.

229. In the absence of such relevant information from the investee companies, investment firms should use the information they may obtain through bilateral engagements with these companies or use proxies and estimates for a limited transitional period. The transitional period allowing the use of proxies and estimates should be longer for the investment firms when their investee companies are not subject to NFRD. In particular, a transitional period until December 2022 is proposed when the investee company is subject to NFRD disclosure obligations and until June 2024 for non-NFRD investee companies.

230. **The first disclosure for the financial year 2021 should not apply retroactively:** For those disclosures that are applicable from 1 January 2022, the first disclosure should cover the financial year 2021 only, and for those disclosures applicable from 1 January 2023, the first disclosure should cover the financial year 2022 only.

231. Investment firms should be required to disclose this information by using the templates included in Annex II to this document.

4.1.3 Investment services and activities not dealing on own account

Figure 16: Revenue (fees, commissions and other monetary benefits): investment services and activities not dealing on own account

	Revenue from services and activities	Revenue from services and activities linked to sectors covered by the EU Taxonomy	Revenue from services and activities linked to sectors aligned with the EU Taxonomy
	[D]	[E]	[F]
Reception and transmission of orders in relation to one or more financial instruments			
Execution of orders on behalf of clients			
Portfolio management			
Investment advice			
Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis			
Placing of financial instruments without a firm commitment basis			
Operation of an MTF			
Operation of an OTF			

232. For the purposes of investment firms' disclosures not relating to on own account services the following KPIs are proposed:

(i) KPIs: revenues (fees, commissions and other monetary benefits)

- a. Share of 'Revenue (fees, commissions and other monetary benefits) from services and activities linked to sectors covered by the EU Taxonomy' in 'Revenue (fees, commissions and other monetary benefits) from services and activities', i.e. [E] / [D];
- b. Share of 'Revenue (fees, commissions and other monetary benefits) from services and activities linked to sectors aligned with the EU Taxonomy' in 'Revenue from services and activities linked to sectors covered by the EU Taxonomy', i.e. [F] / [E]; and
- c. **Share of 'Revenue (fees, commissions and other monetary benefits) from services and activities linked to sectors aligned with the EU Taxonomy' in 'Revenue (fees, commissions and other monetary benefits) from services and activities', i.e. [F] / [D].**

(ii) Clients considered

233. For the calculation of this KPI, **investment firms should consider those clients receiving investment services other than 'dealing on own account' services and ancillary services that** are non-financial corporates subject to NFRD disclosure obligations, non-financial corporates not subject to NFRD disclosure obligations, financial institutions subject to NFRD disclosure obligations and financial institutions not subject to NFRD disclosure obligations. While the clients that are subject to NFRD should disclose the necessary information providing key input for investment firms' disclosures, such information is not readily available when it comes to clients that do not fall under the scope of the NFRD.

234. For the services and activities related to client companies not subject to NFRD, investment firms should rely on information collected by other means, including bilateral engagement with the clients. As a fallback solution, investment firms should use a methodology based on proxies. This would allow services to non-reporting corporates to be included in the numerator by assigning coefficients for their indicative climate-objective-specific (overall) alignment with the EU Taxonomy from a central methodology based on estimates. The methodology developed by the Commission's Joint Research Centre for climate change mitigation could be used and could be further adapted based on the forthcoming Delegated Acts on climate change mitigation and adaptation.

(iii) Calculation methodology

235. With regard to the KPI ([F] / [D]) for investment firms' activities other than dealing on own account and ancillary services, the numerator is designed as the 'weighted average' of the revenue (fees, commissions and other monetary benefits) generated by the investment firm in relation to the aggregate taxonomy compliance of the clients. For example, while the level of compliance for non-financial corporates is based on their turnover, the level of compliance for financial institutions is based on the overall taxonomy alignment of their balance sheets, i.e. GAR for financial institutions, as explained before.

Simplified illustration for the calculation of KPI [F] / [D] above:

An investment firm providing investment advice to a non-financial corporate receives a EUR 10 million fee for this investment service. According to the NFRD disclosures of the client, its overall alignment with EU Taxonomy is 30%. In this case, the investment firm's taxonomy alignment for the specific investment advice would also be 30% (or EUR 3 million).

In addition, the investment firm starts providing another investment advice service to a financial institution from which it receives a fee of EUR 50 million. This financial institution, under NFRD, discloses its GAR at 5%.

In this case, the taxonomy alignment of the investment firm's services to these two clients would be approximately 9%, that is $((3+2.5)/60)*100$.

236. Similarly, services to non-EU clients are excluded from the computation of the KPI because the EU Taxonomy does not cover non-EU business and it would be challenging for the investment firms to collect such information. If such information were collected, its consistency and comparability would be questionable.

EBA advice to the Commission

237. The EBA's advice is to introduce a KPI for investment firms' services and activities other than dealing on own account and ancillary services to clients, including NFC and financial corporates.
238. This KPI should be based on the revenue (fees, commissions and other monetary benefits) that investment firms generate from their investment services and activities (other than dealing on own account and ancillary services) provided to their clients. The disclosure of this KPI would capture the share of 'revenue from services and activities of sectors aligned with EU Taxonomy' in total eligible revenue from services and activities.
239. The calculation of the KPI should be based on information on the proportion of the client's economic activities' (turnover KPI) overall alignment with the EU Taxonomy. In case of clients that are financial institutions, the calculation of the KPI should be based on the KPI in terms of assets or investments disclosed by the financial institution, as explained in the section on credit institutions.

240. In the absence of such relevant information from clients, investment firms should use the information they may obtain through bilateral engagements with their clients or use proxies and estimates for a limited transitional period. The transitional period allowing the use of proxies and estimates should be longer for investment firms when their investee companies are not subject to NFRD. In particular, a transitional period ending in December 2022 is proposed when the investee company is subject to NFRD disclosure obligations and ending in June 2024 for non-NFRD investee companies.
241. **The first disclosure for the financial year 2021 should not apply retroactively:** For those disclosures that are applicable from 1 January 2022, the first disclosure should cover the financial year 2021 only, and for those disclosures applicable from 1 January 2023, the first disclosure should cover the financial year 2022 only.
242. Investment firms should be required to disclose this information by using the templates included in Annex II to this document.

4.2 Further considerations

243. To ensure that helpful information is provided to market participants, the EBA believes that the investment firms' reporting should **indicate the environmental objectives as well as the nature of the activities, whether enabling or transitional.**
244. The EBA suggests that the Commission could consider additional voluntary disclosures based on Capex. These additional disclosures could include the same KPIs proposed based on Capex from the investee companies/clients, as suggested in Figure 13 and Figure 14. In some cases, information on Capex may give forward-looking feedback on the direction of investment as it reflects new, incremental green investments in the economy filling the existing investment gap. This proposal is in addition to the minimum disclosures of KPIs proposed in the previous section. Unlike the case for credit institutions, where information on flows of lending and on specialised lending should show the dynamics of how credit institutions' activities are linked to the transitioning of their counterparties, in the case of investment firms, this information does not exist. For this reason, the EBA proposes further considerations for investment firms (and not for credit institutions) additional disclosures of KPIs based on Capex, in addition to the minimum requirements of KPIs based on turnover.
245. The EBA is of the opinion that the disclosures should take place after netting potential hedges and offsets, regardless of the instrument used (e.g. derivatives, repurchases, short positions), as this would mirror the commitment approach typically used to calculate net leverage for funds. In this context, the methodology for calculating net short positions in Article 3(4)-(5) of Regulation (EU) 236/2012 (the 'Short-Selling Regulation') could be useful as a reference for the netting methodology.
246. Data represent a major challenge for investment firms to comply with their future disclosure obligations under Article 8 of the EU Taxonomy Regulation. To this end, the

investment firms should, to the extent possible, rely on the disclosures of investee companies and their clients under NFRD. Where relevant information is not available, investment firms should use proxies and engage in bilateral dialogue with their clients' investee companies to collect the necessary information. For the use of proxies, until the data become available under NFRD, a transition period until December 2022 can be introduced for disclosures of KPIs and GAR. Proxy information in terms of estimates and ranges can be disclosed during this period. For investment firms whose investee companies are not subject to NFRD, the transitional period allowing the use of proxies and estimates should be until 2024. This approach for the disclosures of investment firms would also align with the transition period proposed for credit institutions' disclosures.

5. Advice on qualitative disclosures

247. The EBA considers that the disclosure of quantitative KPIs, defined in accordance with the methodologies outlined in this advice, should be accompanied by qualitative information to support the proper understanding of these KPIs.

248. As the disclosure of the level of taxonomy alignment by banks and investment firms will be new for the market, contextual and complementary information is expected to play an important role in enabling the appropriate interpretation and use of the data items published, especially in the first years of implementation. Moreover, the potential use of the Taxonomy by institutions in their strategy and engagement with counterparties has to be clearly explained to properly understand how and to what extent their activities are aligned with taxonomy-eligible activities. Finally, institutions may publish further information to provide a more comprehensive view of their green or sustainable finance strategies, whilst this should not jeopardise the clarity of the taxonomy-related disclosures. In that sense, supplementing information to the taxonomy-aligned exposures needs to be targeted and institutions should ensure that publishing other information or metrics do not make it difficult to find the taxonomy-related KPIs.

249. Against this background, the EBA recommends that institutions publish the following qualitative information:

a. Contextual information to help stakeholders understand the quantitative indicators

250. This contextual information should at least include information on the scope of assets covered by the KPIs. Indeed, it is particularly important that institutions disclose to what extent the KPIs cover their activities as a whole. This would favour a proper understanding of the ratio and would put it into context in terms of its relevance compared to the balance sheet of the institution, and compared to other institutions. Depending on the types of counterparties and asset classes and the business lines in which they are most active, institutions' activities are indeed expected to be differently captured by taxonomy-related KPIs. Information on the coverage of the KPIs, in relation to a brief description of the most significant activities and business lines of the institution, should therefore be provided.

251. In addition, institutions should provide clear information on the data sources associated with the KPIs, their features and potential limitations. Notably, in the case of real estate related KPIs, institutions should remember that EPCs are used as a proxy to taxonomy alignment and explain the meaning and characteristics of the local, regional or national EPCs on which they rely, taking into account that these are not harmonised at the EU level.

252. More generally, information on the data limitations faced by the institutions and the ongoing efforts of the institutions to bridge data gaps would be useful, including explanations on the extent to which they are using proxies, the types of proxies used, and the disclosure of information in terms of estimates and ranges.

b. Justifications about why the level of taxonomy-aligned activities of the institution varies from one year to another

253. Institutions should describe the main drivers explaining the changes in the level of the different KPIs and of the aggregate GAR over time. In particular, this should clearly differentiate between reasons associated with new business choices and reasons associated with data and methodological considerations.

c. Whether and, if so, how the institution is using the Taxonomy in its business strategy, product design processes and engagement with clients and counterparties

254. Institutions should describe whether and, if so, how and to what extent they make use of the Taxonomy when setting their strategy, including when they establish objectives and targets, as well as in their product design processes and when they engage with counterparties on their transition and adaptation strategies. In particular, institutions should describe or provide a link to their environmental strategy and targets to clarify, specifically, whether they are using the Taxonomy to set environmental targets.

d. Information on the trading book

255. Institutions that are not required to disclose quantitative information on held for trading exposures should provide qualitative information on the extent to which their trading portfolios are aligned with the Taxonomy. This should include at least a description of: the overall composition of the trading portfolios in light of the Taxonomy criteria; the policy of the institution with regard to the alignment of a certain portion of its trading portfolio with the Taxonomy; the observed trends for assessing advances in the degree of alignment of the trading portfolio with the Taxonomy; any objectives related to the taxonomy alignment of the trading portfolio set by the institution.

e. Additional or complementary information

256. Institutions may publish additional or complementary information when they consider this will help stakeholders understand their strategies or the weight of the financing of sustainable activities in their overall activity. This additional information should not replace the taxonomy-related KPIs but can play a role in complementing them.

257. Whilst institutions should have a degree of flexibility to establish additional metrics or additional information, institutions may provide such information, or cross-reference information provided elsewhere, e.g. in regard to their actions and strategy on green or sustainable finance, going beyond the role of the Taxonomy. This could include information on sustainable products (e.g. sustainability linked loans) and actions taken to support clients in their transition towards sustainable business models. Institutions may also provide information on the alignment of their portfolios, such as credit portfolios, with international or EU climate objectives, such as the 2°C scenario or the EU's ambition for a 55% emissions reduction in 2030 and net zero emissions in 2050. This metric can provide a broader view of institutions' alignment

with transition pathways, with forward-looking information that can help understand their positioning and strategies.

EBA advice to the Commission – Qualitative information

258. The disclosure of quantitative KPIs should be accompanied by qualitative information to support the institutions' explanation and markets' understanding of these KPIs.

259. The EBA advises institutions to publish qualitative information covering the following aspects:

- contextual information to help stakeholders understand the quantitative indicators (including, at least, the scope of assets and activities covered by the KPIs, information on data sources and limitations, and on the use of proxies, estimates and ranges);
- explanations on the evolution of the level of taxonomy-aligned activities over time, starting from the second year of implementation, distinguishing between business-related drivers and methodological and data-related drivers;
- description of the use of the Taxonomy in institutions' business strategy (including target setting), product design processes and engagement with clients and counterparties;
- for institutions that are not required to disclose quantitative information on held for trading exposures, qualitative information on the alignment of trading portfolios with the Taxonomy (overall composition, trends observed, objectives and policy);
- additional or complementary information to help understand institutions' strategies and the weight of the financing of sustainable activities in their overall activity.

6. Policy recommendations and other considerations

6.1 Policy recommendations

260. The EBA addresses the following recommendations to the European Commission, based on the assessment that actions suggested would support the reliability and comprehensiveness of institutions' disclosures related to the Taxonomy.

6.1.1 Continue to take actions to create an enabling disclosure and data framework

261. Data availability and accessibility are key aspects for institutions' disclosures, which the EBA acknowledges, as institutions' disclosures greatly depend on counterparties' data. In the advice, the EBA has made a number of proposals regarding the use of proxies as well as estimates, ranges and transitional periods to facilitate disclosures by institutions. In order for the disclosures in terms of estimates and ranges to be reliable and comparable, the EBA recommends that institutions apply as a fallback solution taxonomy alignment coefficients that are publicly available and developed by an EU body, in order to ensure the comparability and reliability of disclosures. In addition to these proposals, we encourage policy-makers to take further actions to establish an enabling disclosure and data framework.

262. To this end, the EBA reiterates its support to broaden the scope of application of the NFRD as part of the on-going NFRD review. This should allow a larger share of institutions' counterparties to be captured and more consistent disclosures to be made by corporates, including information related to the level of taxonomy alignment. When broadening the scope of application of the NFRD, SMEs should be considered in a proportionate way and the NFRD should define clear proportionality criteria (quantitative and qualitative) to delimit which SMEs the reporting obligations apply to. Developing simplified and proportionate, although relevant, standards for SMEs, in addition to the proportionality criteria, would contribute to alleviating the burden on SMEs arising from bilateral demands for information, including from financial institutions, and help them gain access to business opportunities.

263. In addition, as the demand for relevant, reliable and comparable company disclosures on non-financial matters is increasing, we consider that a central element of the NFRD revision should be the introduction of a higher level of standardisation in the non-financial disclosure requirements. In particular, we consider it would be important to include the detailed disclosure standards in regulatory or implementing technical standards, setting out mandatory rather than voluntary requirements. The EBA also reiterates its support for the implementation of a central data point where ESG-related information would be stored, and be machine-readable. This should include the corporate reporting made under Taxonomy Regulation requirements.

264. Other actions to facilitate the access to relevant data by financial institutions should also be considered. In particular, the EBA has observed that access to data related to EPCs of houses or buildings is currently constrained by a number of limitations, even when EPC databases exist at regional or national level. In order to support disclosures by institutions on their real estate portfolios, the Commission should support the establishment of publicly accessible EPC databases or registers at least at the national level. In addition, extending the scope of the obligation to also provide EPCs in the case of renovation of houses or buildings, or when a loan is granted for this purpose, would make it possible to capture a higher share of institutions' exposures under the proposed KPIs.
265. In the same spirit, further actions to enhance the reliability of data can be envisaged. For example, under the current framework, NACE codes would be expected to be self-declared by corporates and that a given corporate could be allocated to different codes. Further verification requirements and harmonisation can be sought, with a view to limiting arbitrage opportunities and reducing the due diligence or verification costs for institutions.

6.1.2 Aim for international taxonomy standards or minimum criteria and developing an equivalence framework

266. The EBA has included in its advice a proposal to distinguish between disclosures related to EU exposures on the one hand and non-EU exposures on the other, as assessing the level of alignment of the latter with EU Taxonomy would be particularly challenging at this point for institutions. However, in order to provide information on the largest possible portion of institutions' exposures, institutions with non-EU subsidiaries should also try to provide estimates of the level of 'greenness' of their non-EU exposures. The EBA acknowledges that the quality and reliability of this information will need to be enhanced over time.
267. From that perspective, the EBA sees a need, going forward, to encourage the harmonisation of existing taxonomies and progress towards the development of international taxonomy standards or common criteria. As a first step, an equivalence framework between the EU Taxonomy and other national or regional taxonomies should be developed. This would enhance transparency about what is commonly 'green' across countries. It could facilitate the adoption and application of the EU Taxonomy by non-EU actors, and greatly support the reliability of the assessment by institutions of the level of taxonomy alignment of their non-EU exposures. While this equivalence framework is being developed, the EBA is of the view that a common coefficients methodology developed by an independent EU body and that institutions may use as a fallback solution to provide estimates based, for instance, on sector based proxies or coefficients on the level of alignment with the Taxonomy, would support the reliability and comparability of disclosures²⁴.

268. The EBA supports the work undertaken by the International Platform on Sustainable Finance (IPSF) in this direction. The IPSF has announced that it has initiated a working group on

²⁴ Similar to the JRC/UZH taxonomy aligned coefficients estimated for EU NACE sectors and for the objective of climate change mitigation

taxonomies that will work toward a 'Common Ground Taxonomy' highlighting the commonalities between existing taxonomies. The objectives announced by the IPSF are to comprehensively compare existing taxonomies for environmentally sustainable investments developed by public authorities of member countries, identify commonalities and differences in their respective approaches, criteria and outcomes. By mid-2021, a Common Ground Taxonomy would display the commonalities between the taxonomies already existing within the IPSF membership.

269. The EBA considers that this Common Ground Taxonomy can play an important role to gradually establish a common reference point for the definition of investments that are considered as environmentally sustainable, in a first step across relevant IPSF jurisdictions and at a later stage across a wider range of countries. In addition to contributing to scaling up cross-border green investments, common standards or criteria would support the classification of assets by institutions and facilitate taxonomy-related disclosures for non-EU exposures.

270. Furthermore, the EBA supports the IFRS Foundation's initiative to consider the potential for globally accepted sustainable reporting standards to promote internationally consistent and comparable non-financial reporting²⁵. This should increase the possibilities for achieving enhanced data availability, public disclosures and comparability on sustainability reporting on a global scale.

6.1.3 Extend the scope of the Taxonomy to enable more encompassing disclosures

271. The EU Taxonomy currently provides a basis for harmonised and comparable disclosures related to economic activities that qualify as environmentally sustainable. In a first step, the completion of the EU Taxonomy for all economic activities and the gradual development of more granular criteria for other environmental objectives beyond climate change will be key for the practical implementation of the EU Taxonomy and, hence, for the publication of wider, more comparable disclosures.

272. In the longer term, further extension of the scope of the Taxonomy would enable more encompassing disclosures reflecting a broader share of institutions' exposures beyond those associated with environmentally sustainable activities. In this regard, the EBA supports the work currently being undertaken by the Platform on Sustainable Finance established by the Commission and will continue its participation in this fora. In accordance with its mandate, the Platform is considering in particular whether existing actions need to be complemented by the development of a taxonomy for economic activities that have low or negative environmental impacts, as well as a taxonomy to cover social objectives, in line with the review clause of the Taxonomy Regulation.

273. Should the scope of the Taxonomy ultimately be extended, the application of disclosure requirements reflecting this broader scope should be considered. From the EBA's perspective,

²⁵ ESAs [letter](#) on the IFRS consultation on sustainability reporting

an extension of the scope of the Taxonomy appears desirable to facilitate the consistency and comprehensiveness of ESG disclosures and reporting by financial institutions. Such completed taxonomies would provide the basis for setting harmonised disclosure requirements, with a view to providing comparable, reliable and more comprehensive information on institutions' exposures taking into account their environmental (or social) characteristics. Such a framework would notably support the EBA in defining disclosure requirements on ESG risks for large institutions in accordance with Article 449a of the CRR, as mandated under Article 434a of the same Regulation.

6.1.4 Consider introducing a review clause in the delegated act

274. In light of the novelty and evolving nature of sustainability-related disclosures, the EBA considers that there would be a merit in introducing a review clause in the delegated act. This review clause would allow the monitoring and assessment of the first taxonomy-related disclosures made by institutions and assess whether adjustments are needed, also taking into account the transitional periods advised by the EBA for the computation of some KPIs (e.g. SMEs). In order to provide certainty to institutions, it should, however, be made clear that the KPIs and methodologies that will be included in the delegated act will remain valid to a very large extent and that adjustments are likely to go 'upward' rather than 'downward'.
275. In particular, a review of taxonomy-related disclosure requirements could be used to consider new possibilities arising to extend the scope of disclosures, to additional asset classes or types of counterparties, on the one hand, and to exposures associated with social objectives or low and negative environmental impacts on the other – depending on legislative developments for the latter.
276. With regard to types of asset classes and counterparties included in the KPIs, the EBA considers, for instance, at this point, that assessing the level of alignment of the trading book, sovereign or central bank exposures is challenging for institutions, in the absence of appropriate methodology. However, new methodologies to establish the contribution or alignment with the Taxonomy of these exposures may be developed over time, building, for instance, for sovereign exposures on the efforts to better trace the public expenditures as part of the EU green recovery, and, for central bank exposures, on the evolving screening methodologies of central bank portfolios in light of sustainability characteristics.
277. New sources of data, new standards and new methodologies or proxies, e.g. stemming from a review of the NFRD, the establishment of a European single ESG data point and an EU Green Bond Standard, international harmonised criteria or other developments, could then be properly accounted for when updating the taxonomy-related disclosure requirements.

EBA advice to the Commission

278. The EBA recommends to the Commission a number of actions to support the reliability and comprehensiveness of institutions' disclosures related to the extent to which their activities are aligned with the Taxonomy.

- Pursuing the establishment of an enabling disclosure and data framework, e.g. through the review of the NFRD (scope of application, mandatory and standardised requirements, central data point) and better access to EPC registers.
- Developing an equivalence framework between the EU Taxonomy and other national or regional taxonomies, and aiming for international standards and criteria, in order to allow a better assessment of the taxonomy-alignment level of non-EU exposures and clients.
- Extending the scope of the Taxonomy as a step towards more encompassing disclosures – first by completing the Taxonomy for all economic activities and environmental objectives and by considering actions to develop a low or negative impact Taxonomy and a social Taxonomy.
- Considering the development by an independent EU body, such as the European Commission's Joint Research Centre, of a common coefficients-based methodology on sector taxonomy alignment for all environmental objectives that institutions could apply as a fallback solution in the absence of relevant information.
- Introducing a review clause in the delegated act, in order to monitor the first taxonomy-related disclosures of institutions and assess the possibilities of adjusting requirements, e.g. by further extending the scope of disclosures to additional asset classes or types of counterparties.

6.2 Role of the Taxonomy for the banking sector and interlinkages with other policy developments including EBA mandates

279. The EU Taxonomy is a centrepiece of the EU actions to support the transition to a sustainable economy, in which the financial sector is expected to play an important role. In the current context, the Taxonomy appears as an important enabler for implementing the European Green Deal as part of the EU's response to climate and environmental challenges and for supporting a post-COVID green recovery.

280. As stated in the EBA action plan on sustainable finance²⁶, the EU Taxonomy supports the work the EBA is conducting to incorporate Environmental, Social and Governance (ESG) factors

²⁶ https://eba.europa.eu/sites/default/documents/files/document_library//EBA%20Action%20plan%20on%20sustainable%20finance.pdf

and risks into the regulatory framework of banks and investment firms, in accordance with the mandates received under the relevant Regulations²⁷ and Directives²⁸. As further explained below, the Taxonomy plays a supporting role in all of these mandates.

281. The development of the EU Taxonomy has a number of implications for the banking sector. By providing harmonised definitions of environmentally sustainable activities and in light of its potentially wide reach and impact, the Taxonomy can support institutions from different perspectives in their approach to supporting the transition towards a more sustainable economy and in identifying and managing environmental-related challenges.
282. The Taxonomy by and of itself cannot cover all needs and institutions must consider a range of actions to appropriately deal with the impacts of ESG factors. As a classification table that does not provide a judgment on the financial performance of activities²⁹, the Taxonomy has not been designed to solve all prudential issues related to climate and ESG risks, nor to force specific investment choices from regulated entities. Institutions will increasingly be expected to manage and disclose the environmental and climate-related risks across all (i.e. also non-green) portfolios, based on the materiality of risks, and will further need to consider the transition pathways and adaptation strategies of their counterparties, including beyond a taxonomy-aligned or misaligned boundary.
283. Notwithstanding these limitations, the Taxonomy is a cornerstone of the EU's initiatives on sustainable finance and institutions, including banks, need to consider how to approach and make use of it, taking into account strategic objectives and regulatory requirements.
284. The first, mandatory area where the Taxonomy will affect institutions relates to disclosures, in line with the primary purpose of the Taxonomy to increase transparency and limit the risk of greenwashing and market fragmentation in the classification of green activities. This use responds to one of the objectives of the Commission's action plan on sustainable finance (2018) which is to foster transparency in the financial system. This objective has also led to several EU legislative initiatives on ESG disclosures. Accordingly, institutions will have to comply with transparency requirements introduced by the EU Taxonomy Regulation (Article 8, which is the focus of this advice) and the Regulation on Sustainability-Related Disclosures in the Financial Sector (product-level disclosure requirement³⁰).
285. In addition, the Capital Requirements Regulation (CRR), as amended in 2019³¹, includes new disclosure requirements on environmental, social and governance risks for large institutions which have issued securities that are admitted to trading on a regulated market of any Member

²⁷ Credit Requirements Regulation, Investment Firms Regulation, Sustainable Finance Disclosure Regulation

²⁸ Credit Requirements Directive, Investment Firms Directive

²⁹ As spelled out in the Technical Expert Group report

³⁰ These requirements are applicable to Financial Market Participants who market, or manufacture, financial products in the European Union. Products in scope include notably Corporate & Investment Banking (securitisation funds, venture capital and private equity funds, portfolio management and index funds).

³¹ Regulation (EU) No 575/2013 <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:02013R0575-20180101>. See in particular Article 449a

State. This includes disclosures on climate-related physical risks and transition risks as defined in the report referred to in Article 98(8) of Directive 2013/36/EU. The EBA is developing draft implementing technical standards (ITS) specifying this disclosure requirement in a way that would convey sufficiently comprehensive and comparable information for users of that information to assess the risk profiles of institutions. Institutions will have to start disclosing this information from June 2022. The EBA intends to explore and ensure relevant synergies between information to be published under the Taxonomy Regulation and information that will be requested under the CRR.

286. The EBA welcomes these initiatives and considers that achieving higher transparency will prove critical to enhance market discipline and allow investors and other stakeholders to compare how financial institutions position themselves, and to make informed decisions. Institutions' disclosures of the extent to which their activities are associated with taxonomy activities, and the targets set by institutions, will provide information on institutions' involvement in green activities and help understand their positioning and strategies. By showing the evolution of the level of taxonomy-aligned activities over time, and reporting this together with information on exposures vulnerable to transition and physical risks for Pillar 3 purposes, this information will also highlight some of the actions institutions are implementing to adjust their exposures and mitigate the likelihood of materialisation of climate change risks.

287. In addition, and closely related to disclosure requirements, institutions may use the Taxonomy in their strategy setting and product design processes. The Taxonomy Regulation does not mandate any investments in economic activities meeting its set of criteria and institutions should remain free and responsible to design and implement the strategy they consider most appropriate. By providing an EU-based framework of reference, the EU Taxonomy can nonetheless serve as a robust supporting instrument that institutions may decide to use in some instances.

288. As explained in the EBA Discussion Paper on ESG risk management and supervision³², a proactive management approach is required from institutions to properly cater for the forward-looking, cross-cutting and long-term characteristics of ESG risks and with the view to ensuring the long-term resilience of business models. Such a long-term driven and proactive risk management approach entails, inter alia, monitoring the business environment (including with a long-term perspective), setting strategic objectives and limits, engaging with customers and counterparties (e.g. constructive dialogue on how to transition towards sustainable business models) and considering the development of sustainable products.

289. From that perspective, the EU Taxonomy may support institutions in their proactive risk management approach and in accordance with institutions' risk appetite. As included in the EBA discussion paper, institutions that wish to align more closely with the EU Taxonomy could for example set a target on a certain proportion of their overall credit or investment portfolios to

³² https://eba.europa.eu/sites/default/documents/files/document_library/Publications/Discussions/2021/Discussion%20Paper%20on%20management%20and%20supervision%20of%20ESG%20risks%20for%20credit%20institutions%20and%20investment%20firms/935496/2020-11-02%20%20ESG%20Discussion%20Paper.pdf

be associated with activities that qualify as environmentally sustainable under the Taxonomy. In this regard, institutions could find it useful that the Taxonomy does not only capture activities that are already sustainable, but that also the financing of improvement measures may be counted as eligible if they are part of an implementation plan to meet the applicable activity threshold over a defined period of time.

290. In addition to setting and disclosing strategic objectives and/or limits and related key performance indicators (e.g. using the EU Taxonomy as a reference), institutions should assess the need to potentially develop sustainable products or to adjust features of existing products in alignment with their strategic objectives and/or limits. When developing these products, they would ideally be aligned with available standards and labels, notably the EU Taxonomy. Furthermore, when engaging with counterparties, institutions may also rely on the Taxonomy as it provides an understanding of the degree of sustainability of activities in which counterparties operate. This assessment can then potentially be used to set out how counterparties plan to move towards greater taxonomy alignment over time and to set up related targets.

291. Furthermore, by providing the basis for a harmonised classification of green activities, the Taxonomy is also expected to play a supporting role in the longer term, to assess the risk profile and risk characteristics of exposures associated with green activities. This would prove instrumental in assessing the need for a dedicated treatment of those assets, as is already mandated to the EBA under Article 501c of the CRR.

292. The EBA invites institutions to actively consider the implications of the Taxonomy for their operations in all these areas (disclosures, product design, classification of exposures, strategic objectives and targets in line with institutions' risk appetite).

7. Costs to banks and investment firms

293. The CfA explicitly requires the three ESAs to assess the impacts any proposed metrics might have on undertakings, including in terms of costs. For this purpose the EBA has conducted a case study with a selected sample of banks, asking specific questions on costs related to KPIs in general and the estimated costs banks anticipate for some of the proposed KPIs.
294. Banks were selected based on the depth of information received in the responses to the EBA Survey on credit institutions' disclosure of information related to ESG risks conducted in 2020³³, as well as information gathered as part of calls with industry associations as well as bilateral calls. In total, 10 banks were contacted, of which seven participated. These were mainly large banks, from five jurisdictions.
295. As part of the survey conducted for investment firms, the EBA also included specific questions on the costs for investment firms of developing KPIs for taxonomy alignment.
296. As the sample of the respondents is small, actual figures or statistics will not be representative of the EU banking sector or investment firm sector as a whole. Nevertheless, the more in-depth information gathered from the sample of banks and investment firm associations provides valuable insights into key concerns and anecdotal evidence of the key challenges faced.

7.1 Credit institutions

297. Responding banks are actively incorporating sustainability into their business models (for instance through multi-year business transformation initiatives, participation in pilots such as those of UNEP-FI and the EBA sensitivity analysis, or specific in-house methodologies to measure climate risk).
298. One bank has a KPI in place which is at least partially based on the EU Taxonomy delegated acts. The KPI aims to measure nominal flows into environmentally sustainable investments. Assessments are performed broadly based on the EU Taxonomy delegated acts for those activities where it has been assessed as feasible or where data challenges could be overcome. Certain adjustments have been made, for instance for non-EU exposures in the form of adjustments to the thresholds and screening criteria, or own judgements are combined with the outcome of the taxonomy assessment. The institution has started the processes, inter alia, of engaging with clients, training staff and including sustainability aspects in the client relationship management (CRM) process, but states that it is still at a very early stage.
299. Otherwise, banks included in and responding to the case study generally have not yet developed processes to assess and calculate taxonomy alignment or related KPIs. Some have stated that an assessment has been piloted, for example in the form of participation in the EBA

³³ [Survey on credit institutions' disclosure of information related to ESG risks](#)

climate sensitivity pilot, or by assessing a number of large corporates. Institutions have started to think about and to anticipate the application of the Taxonomy. However, established processes and systems seem to be in place to date only in one bank in this sample.

300. This confirms the general acknowledgment that the costs for the banking sector of implementing the assessment and KPIs of taxonomy alignment are likely to be significant at the outset. Unlike the responding banks, many (smaller) institutions have not even started, or are at very initial stages of incorporating ESGs in general into their strategies and risk management, which is likely to lead to even higher initial costs for these institutions. More specific information on banks' progress, specifically on disclosures, is discussed in Annex III.

301. The next sections first explore the specific types of costs banks participating in the case study anticipate will be associated with the implementation of KPIs for taxonomy alignment in general and, secondly, look at the costs anticipated for different types of KPIs.

7.1.1 Key challenges and costs of KPIs for taxonomy alignment

Key challenges for the implementation of KPIs and methodologies to measure alignment with the EU Taxonomy

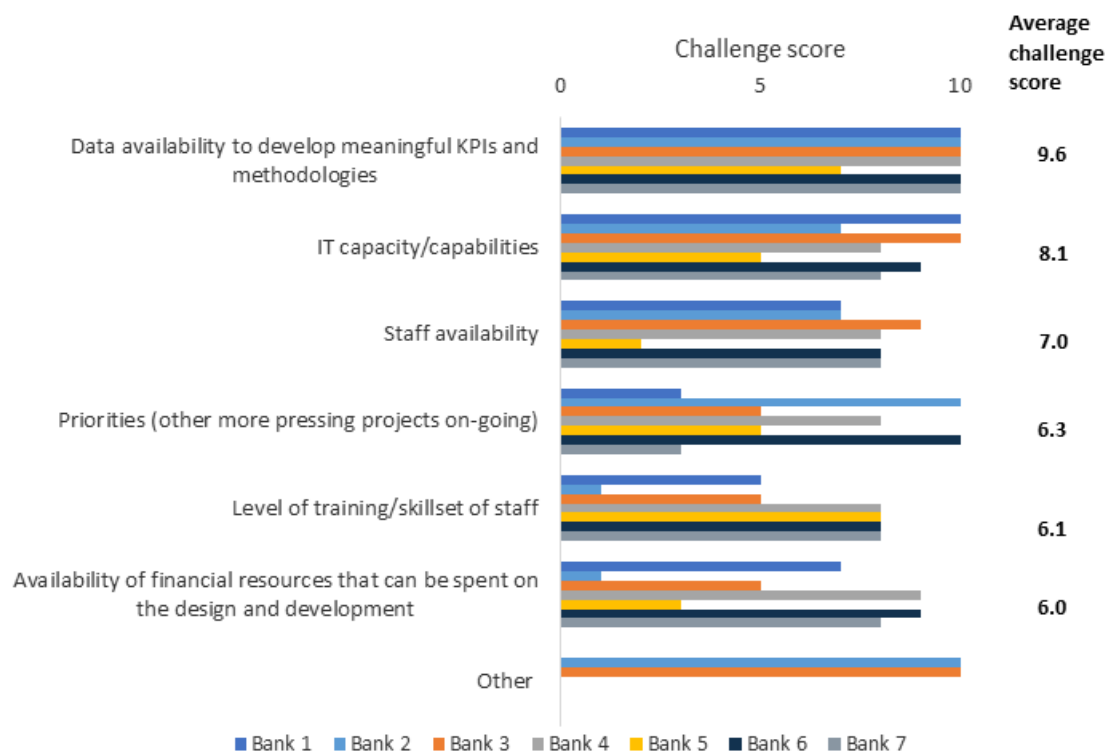
302. The biggest challenge perceived by respondents is data availability, a finding that very much resonates with previous exchanges with the industry. All but one bank scored data availability as extremely challenging (maximum score of 10). In particular, a lack of clarification and governance of data at the EU level as well as a lack of support for institutions on this matter was stated, creating concerns regarding data comparability, scalability and as to how far this is sustainable. The concern exists in particular for SMEs, the retail portfolio and non-EU exposures, counterparties not covered by the NFRD. Not only was the availability of data stressed, but also counterparties' own ability to assess and disclose information in the first place. Data challenges for the DNSH assessment were also mentioned.

303. Even in the case of larger corporate customers, one bank stated that third party assessments vary widely and that they would therefore need to approach customers on a bilateral basis. In this context, it was also mentioned that bilateral exchange between banks and counterparties was not efficient at the bank level, the counterparty level or at the level of the system as a whole, as multiple banks would be contacting the same counterparty.

304. In the context of data availability, several respondents raised the need for a data hub organised centrally at EU level. One bank also raised the need for a general strategic plan on data to support the sector. In addition, one bank stated that a certification process would need to be developed by the European authorities for some methodologies and information provided by external providers.

305. Several respondents also raised the timing issue arising from disclosures by counterparties being applicable only from January 2022 and the applicability to financial institutions of disclosing KPIs for the same date, creating further data challenges, and called for a phased-in approach.
306. Data concerns were followed by challenges relating to IT capacity and capabilities in terms of the average challenge score assigned. An example given for the challenges related to IT capacity was the fact that current systems tend to classify counterparties only by one economic activity, which will need to be changed in order to incorporate and apply the EU Taxonomy. Several respondents stated that extensive developments and extensions to IT systems would be necessary, also including the collection and storage of data.
307. Challenges related to staff availability and challenges due to priorities (other more pressing projects on-going), ranked third overall (average challenge score of 7). Two banks identified priorities as extremely challenging (10)- one of the reasons being that since the timing of the applicability of the Taxonomy remains unclear, priorities today in terms of IT development, staff training, etc. are placed elsewhere (see next paragraph). Financial resources that can be spent on the design and development scored the least challenging on average, but stark differences are observed across banks, with some respondents still perceiving financial resources as fairly challenging. See Figure 15.
308. Three banks identified other challenges, inter alia, training challenges, the lack of a clear methodology as well as regulatory uncertainty. Frequent doubts and uncertainty regarding the interpretation of, for example, certain criteria or DNSH conditions, were voiced, and a streamlining or development of a user guide was proposed. The Taxonomy's complexity was stated, together with insufficient clarity on the taxonomy roadmap, resulting in a focus on the bank's own internal ESG agenda and hence to date no investment in the taxonomy application, in turn implying greater challenges to kick start the taxonomy application. Uncertainties with regard to regulation and timing were also stated to have so far not shifted the priorities sufficiently towards the Taxonomy and the related investments needed (IT, staff training, timing, etc).

Figure 17: Scoring of key challenges for the implementation of KPIs and methodologies to measure alignment with the EU Taxonomy (10 = extremely challenging, 0 = not at all challenging)



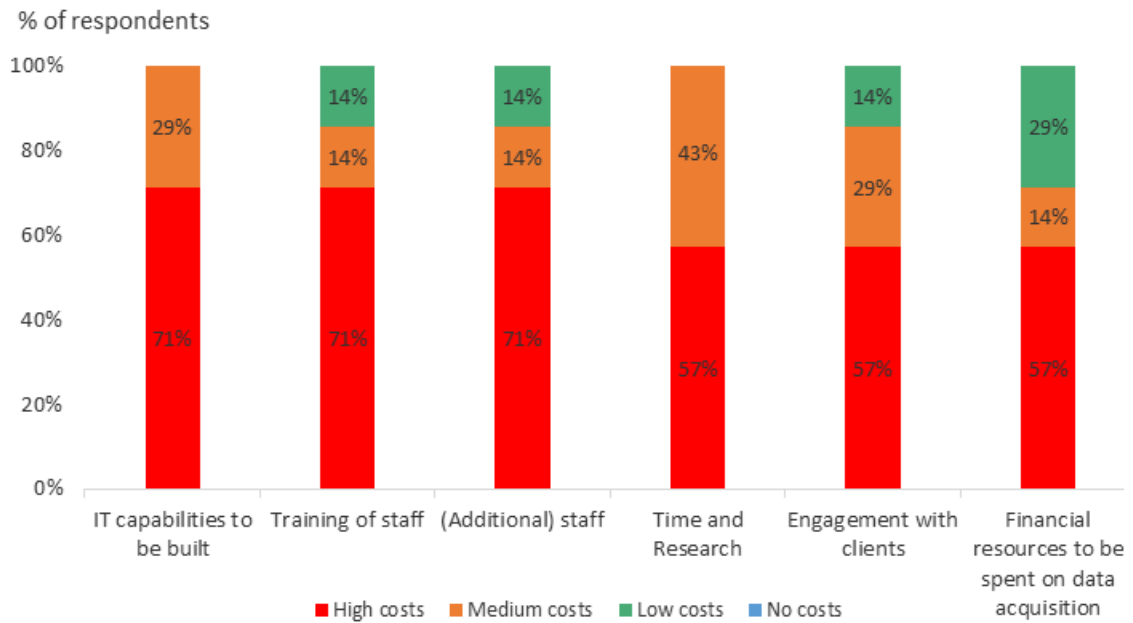
Estimated cost contribution of different cost factors for the implementation of KPIs and methodologies to measure alignment with the EU Taxonomy

309. Perceived relative cost contributions are generally consistent with the perceived areas of challenges. IT capabilities to be built were seen as the highest cost contributor across the responding banks. 71% estimate the costs to be high, and the remaining 29% still estimate medium costs. Additional staffing and training of staff was also assessed to present a high contribution to costs by 71% of the responding banks, with the remainder either anticipating medium or low costs (one bank mentioned high costs for additional staffing, particularly as a result of multiple requests from supervisors in this area). Also, integration of the verification of the taxonomy criteria in existing processes was considered to be operationally difficult and challenging at the staff level, as the information usually refers to aspects that are technically complex and not typical of bank staff duties or knowledge.

310. Time and research needed was estimated to have a high cost contribution for 57% of the banks, and a medium cost contribution for the remaining 43%. Over half (57%) of the respondents also estimate client engagement and financial resources to be spent on data acquisition as a high cost contributor.

311. Cost estimates are theoretical and high-level in nature. Ultimate figures will also depend on the final design and details of the delegated act.

Figure 18: Estimated cost contribution of each factor for the implementation of KPIs and methodologies to measure alignment with the EU Taxonomy

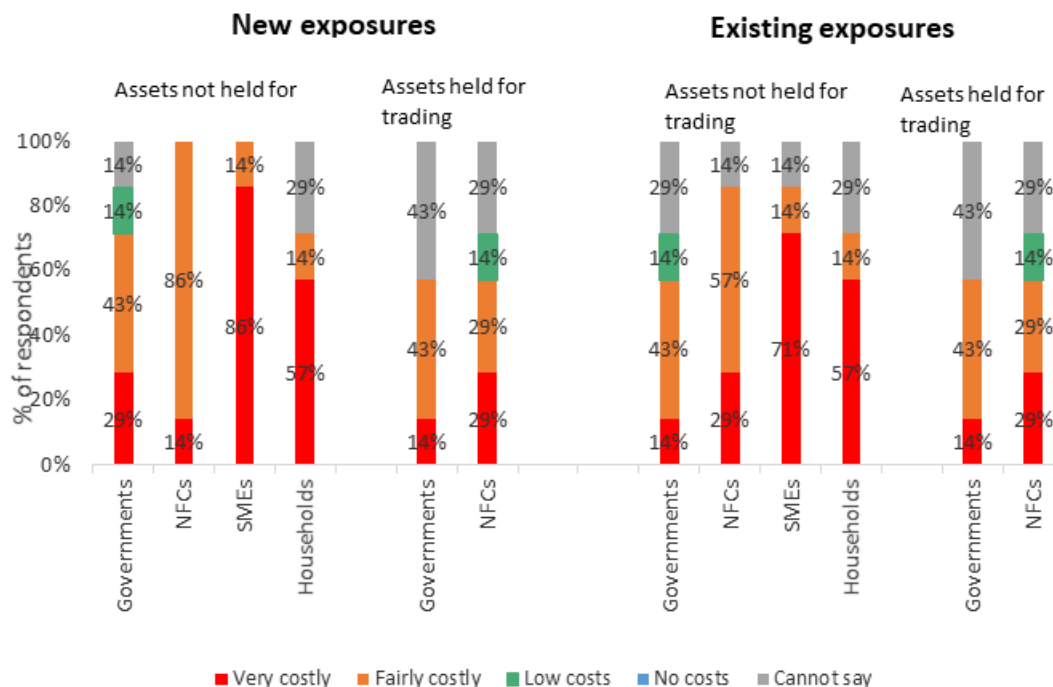


7.1.2 Questions on specific KPIs and counterparties

312. In order to give an indication of the costs and impacts of the specific KPIs proposed in the EBA's response to the CfA, the EBA included questions in the case study relating to the various specific KPIs proposed, differentiating by counterparties and different parts of the loan book.

Volume of financial assets (loans and advances, debt securities, equity) financing sustainable economic activities contributing substantially to climate mitigation and/or adaptation according to the EU Taxonomy

Figure 19: Costs associated with different KPIs proposed



313. New versus existing exposures: **No significant difference can be observed in the costs responding banks associate with respect to new exposures versus existing exposures.** For new government exposures in the non-trading book, 43% estimate the costs associated with assessing the volumes of financial assets financing sustainable economic activities contributing substantially to climate change mitigation and/or adaptation according to the EU Taxonomy as fairly high. Two banks anticipate them to be very high, and two other banks as low or cannot say. For existing exposures, 43% of responding banks again estimate these costs to be fairly high, whilst the remainder again assesses the costs as either high, low or not able to be assessed. Similarly, for the non-financial corporates segment, assessing the volume of assets associated with financing sustainable economic activities contributing substantially to climate change mitigation and or/adaptation according to the EU Taxonomy is stated as fairly costly in the non-trading book for new exposures by all but one bank, whilst the majority of respondents assesses this as fairly costly (57%) and two as very costly for the existing exposures (one bank could not say). For the assessment of assets in the new exposure SME segment, six of the seven banks (86%) anticipate very high costs and one bank estimates fairly high costs. For existing exposures,

figures are very similar with five respondents (71%) and one respondent anticipating this to be very and fairly costly, respectively, while one bank was not able to estimate the costs. Costs associated with assessing the household sector are indicated as being identical overall across new and existing exposures: 57% of the banks anticipate this process to be very costly, one bank as fairly costly and two banks cannot say.

314. One reason given for the costs related to new and existing exposures being equal, was that the assessment would require the same level of effort in the build-up phase. However, it can be assumed that taking into account the volume of existing exposures, overall costs (in terms of time) may be assessed as somewhat higher for existing exposures since data for more counterparties will need to be collected and assessed. Further, the same respondent assumes that since disclosure of taxonomy alignment will be made at holding company level, there is only likely to be a small share of new exposures to holding companies that are not yet part of the existing portfolio.
315. One bank stated that assessing and cataloguing existing exposures would be extremely challenging, if not impossible. It views the review of existing exposures as involving unsurmountable data challenges, also stating a difference between client engagement for new operations and the engagement with clients on other data, which in their view makes asking customers for the required information not feasible (due to associated costs for clients).
316. Trading book versus non-trading book exposures: Similarly, **comparing the trading book and non-trading book exposures for NFCs and government assets, no significant differences can be observed in the estimated costs.** For government assets, there is somewhat more uncertainty towards the estimation of costs in the trading segment (43% of respondents cannot say for both new and existing exposures). For NFC assets, there is also more uncertainty in the trading book, but at the same time one respondent estimates associated costs for the trading book as being lower than in the non-trading book for both new and existing exposures. Another respondent estimates costs to be higher for the trading book.
317. Nevertheless, some responses reiterated that the exclusion of the trading book was favoured, given its short term nature and very different purpose (provision of liquidity and risk hedging tools versus financing longer-term, sustainable activities).
318. Different counterparties: **Differences, however, exist in the estimated costs across KPIs for different counterparties,** with the implementation of KPIs in the SME and retail sector stated as having the highest costs by responding banks (consistent with the data issues outlined in the previous section). Over half (57%) of the banks estimate costs to be very high for the retail segment across both new and existing exposures, with the remainder either still expecting fairly high costs or not being able to say. For the SME segment, high costs are expected by an even larger share of respondents. Six out of the seven banks (86%) expect KPIs for the SME sector to be very high for new exposures, and five out of the seven banks (71%) estimate them to be very high for existing exposures (note that one bank changed its response to 'cannot say' for existing exposures, so it can be assumed that costs are likely to be equally as high as for new exposures).

Costs related to KPIs for NFC and governments are in many cases estimated as fairly high, across all portfolios. A few banks see them as very costly.

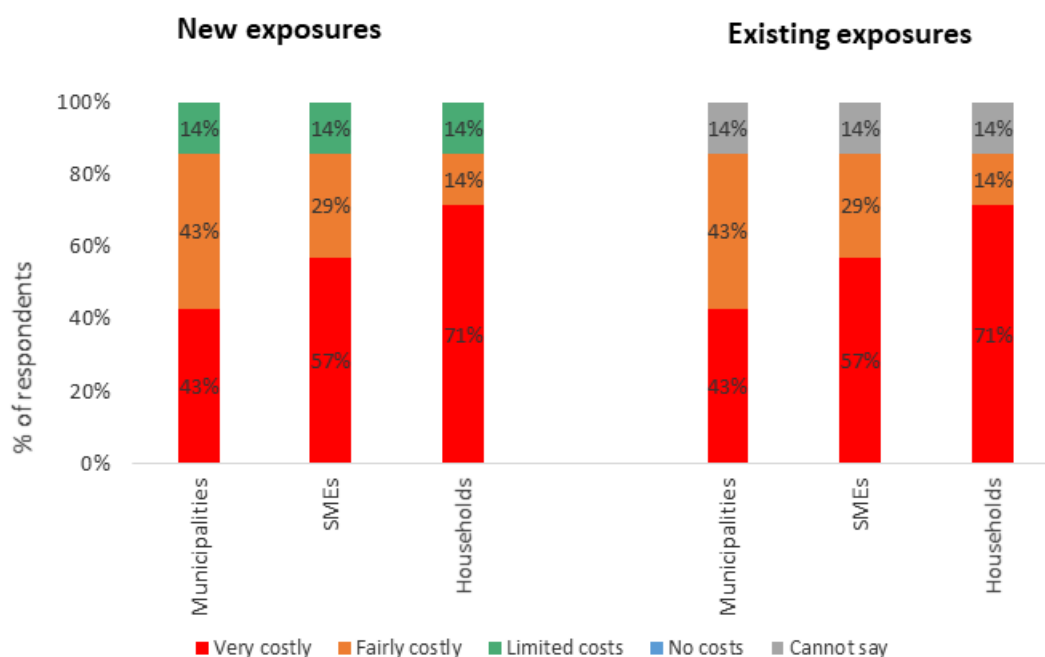
319. In addition to the data challenges present in the SME and retail segment, some reasons provided for the high costs expected in this segment include the fact that developments in IT systems may be more costly for the retail segment and the fact that costs very much depend on how the data is collected and calculated (in-house or through external providers). In-house data collection is very costly, and since external data providers do not cover SMEs and retail clients, the development of KPIs for the latter two segments will imply more costs for institutions.
320. It has also been stressed that as intermediaries only, it would be extremely costly for banks to gather information which is not publicly available due to some counterparties not being covered by the NFRD (i.e. counterparties such as SMEs and retailers). Even if the scope of the NFRD was extended or disclosure of taxonomy alignment was assumed by all, some institutions estimate the costs as being substantial as: i) IT systems would have to be updated (inventory, labels, tags), ii) linking and checking counterparties is stated to be substantial, iii) monitoring of the use of proceeds is expected to be manual.
321. Finally, on the retail side, the main concern seems to relate to general consumer loans rather than mortgage portfolios. One bank argues that an assessment of SME loans could only be applied where there is a specific and known use of proceeds (e.g. solar investments), as otherwise, the implied costs would be disproportionate.

Volume of loans collateralised by immovable property contributing to climate change mitigation

322. **No major differences can be observed in the cost estimates for KPIs for loans collateralised by immovable property contributing to climate change mitigation applicable to new exposures or existing exposures.** The overall cost distribution for 'very costly' and 'fairly costly' was identical for all counterparties across the two. Only one bank estimates limited costs for the new exposures, but expects KPIs for existing exposures to be very costly (another bank expects very high costs for new exposures, but cannot say for existing exposures).
323. Regarding the different counterparties, respondents again saw the retail segment as the most challenging, followed by SMEs and then municipalities. In line with cost estimates for the KPIs discussed above, at least half of the respondents anticipate KPIs to be very costly for the SME and retail segment (57% in the case of SME, and 71% in the case of retail).
324. Specific challenges raised for the retail segment were the lack of availability of up-to-date energy certificates from centralised repositories, the availability of energy certificates for loans prior to certain dates, as well as the comparability of energy certificates across jurisdictions. A centralised repository at EU level and legal provisions for banks to be granted access to energy efficiency labels were raised as a key factor that could decrease costs for the retail segment.

325. One respondent stated that challenges were not so much encountered at individual counterparty level, but rather were highest at the portfolio level due to costs related to the development of IT systems for data mining and reporting purposes.

Figure 20: KPIs for loans collateralised by immovable property



KPIs for fee and commission income

326. Cost estimates for setting up KPIs for fee and commission income deriving from products or services provided to non-financial corporates (NFC) other than lending associated with taxonomy-aligned economic activities that contribute to the environmental objective of climate change mitigation were mixed amongst participating banks. Approximately 43% of all respondents assume costs to be very high, whilst the same proportion of responding banks was not able to provide an answer. One bank anticipates limited costs. The reasons stated here are that customer assessment capabilities from the corporate loan portfolio can be leveraged on, and that monitoring of the use of proceeds is the responsibility of investors and hence lower than that expected for financing activities.

Figure 21: KPI for fee and commission income: Climate change mitigation

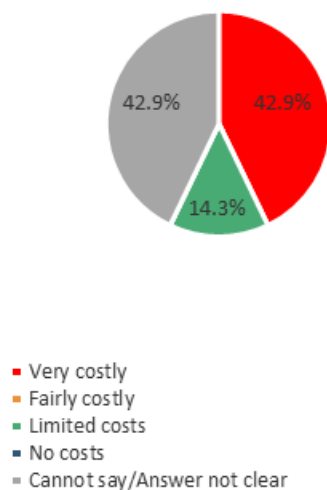
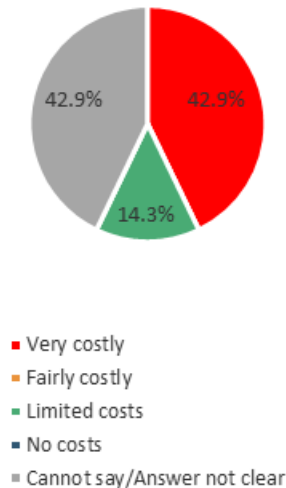


Figure 22: KPI for fee and commission income: Climate change adaptation



7.1.3 Additional information about the portfolio composition

327. In order to gain more insight into the extent of the challenges faced by institutions, the case study also included some questions on portfolio composition.

328. One challenge that has been repeatedly voiced during discussions with the industry is the fact that most of banks' lending is 'general purpose' lending, i.e. that the use of proceeds is unknown and that it is therefore challenging to clearly classify the use of proceeds according to the Taxonomy. As developed in the section on proposed KPIs, in cases where the use of proceeds is unknown, institutions should rely on the information disclosed by undertakings as per Article 8 of the EU Taxonomy (the percentage of their turnover associated with activities contributing to climate change mitigation or climate change adaptation). For larger corporates, information as per Article 8 of the EU Taxonomy will be available, whilst for SMEs this will be more challenging as data and information may have to be collected on a bilateral basis.

329. Of the banks participating in the case study and providing a reply to the question, the vast majority of their portfolios have unknown use of proceeds. One bank stated this portion to be as high as 99%. In addition, the portion of the portfolios in which counterparties do not fall under the scope of the NFRD and for which company information is likely to not be publicly available, was in some cases substantial (the shares provided for counterparties outside the NFRD scope range between 30% and 95% for banks providing answers³⁴).

³⁴ These are in many cases estimates and sometimes relate to different parts of the portfolio.

330. The high share of the portfolios with unknown use of proceeds or exposures to counterparties outside of the scope of the NFRD and hence with limited publicly available information may imply substantial costs for institutions, at least in the early stages of implementation (once counterparties have been assessed and classified once, the procedure should become less cumbersome).
331. Another portfolio attribute raised, that may make it difficult to assess taxonomy alignment, was a high share of a portfolio allocated to trade finance activities on which little information is available since deals are short term. This implies that an assessment would be required of counterparties that are different to the counterparties considered for the usual risk management purposes (and for which data are therefore collected).

7.2 Investment firms

332. Only one industry association replied to the survey with questions on investment firms. This section presents the cost estimates submitted by this one respondent where information could be used.

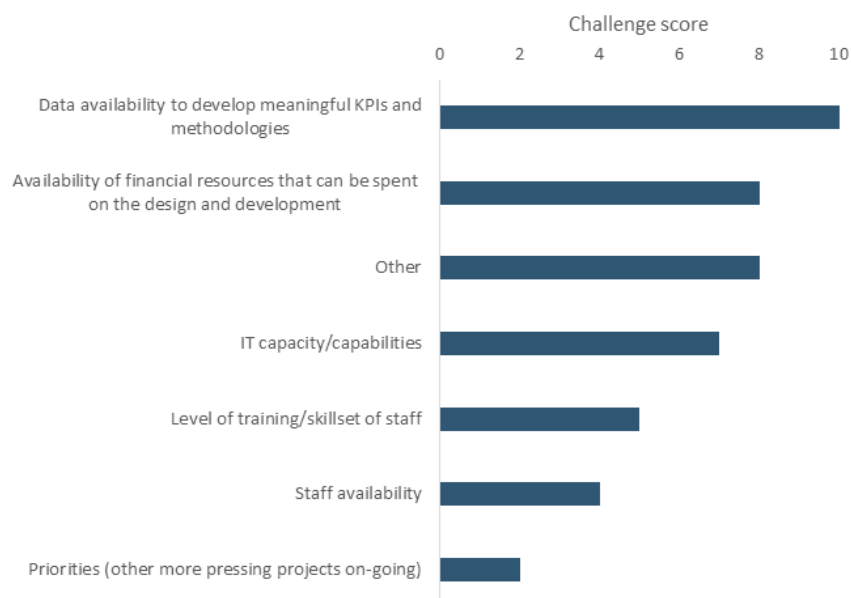
7.2.1 Key challenges and costs of KPIs for taxonomy alignment

Key challenges for the implementation of KPIs and methodologies to measure alignment with the EU Taxonomy

333. Like banks, data availability was perceived by the respondent as the most challenging for investment firms, with a score of 10 (extremely challenging). The availability of financial resources that can be spent on the design and development of KPIs was also given a high challenge score of 8. In regard to other challenges, the respondent cited the timing of the application of disclosure requirements to asset managers and non-financial corporates. Application of disclosure requirements to asset managers as of January 2022 is seen as meaningless if underlying disclosure information from corporates is not yet fully available.
334. A sequenced approach is therefore proposed, with the application of disclosure requirements by asset managers to apply only from January 2023, once data from issuers is available. In the meantime, a suggestion was made to disclose the planned proportion of taxonomy-compliant investments in 2022, if such investments are part of a product's investment strategy, in the precontractual document. At the same time, Level 2 measures could ensure legal certainty for market participants by clarifying that reasonable estimations of EU Taxonomy compliance are accepted as a transitional solution while promoting swifter implementation by companies.
335. The development of IT capacity was scored by the respondent with a challenge score of 7. The level of training/skill sets and staff availability does not seem to be perceived as a key

concern, scoring at 5 and 4, respectively. Priorities on other more pressing projects on-going are perceived as the least challenging factor for investment firms.

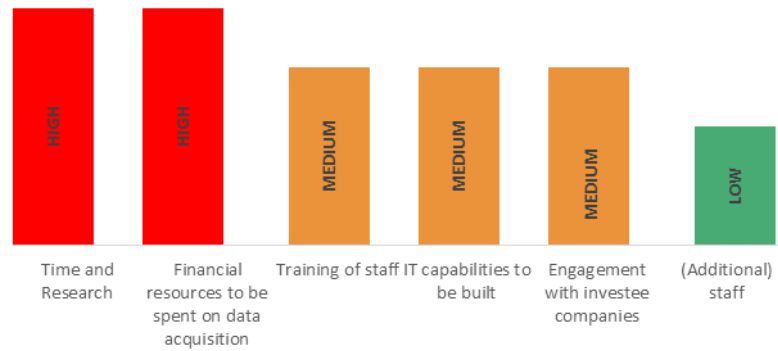
Figure 23: Scoring of key challenges for the implementation of KPIs and methodologies to measure alignment with the EU Taxonomy (10 = extremely challenging, 0 = not at all challenging)



Estimated cost contribution of different cost factors for the implementation of KPIs and methodologies to measure alignment with the EU Taxonomy

336. Time and research as well as financial resources to be spent on the acquisition of data were stated by the respondent to be the highest cost factors. The training of staff, development of IT capabilities and engagement with investee companies were estimated as medium cost contributors for investment firms, with additional staff necessary anticipated as creating low costs.

Figure 24: Cost contribution of various factors for the implementation of KPIs and methodologies to measure alignment with the EU Taxonomy (investment firms)



337. Costs are assumed to be limited in nominal terms, if disclosure by non-financial undertakings is ensured. Most of the costs are expected to come from data acquisition, analysis and aggregation and presentation in reports.

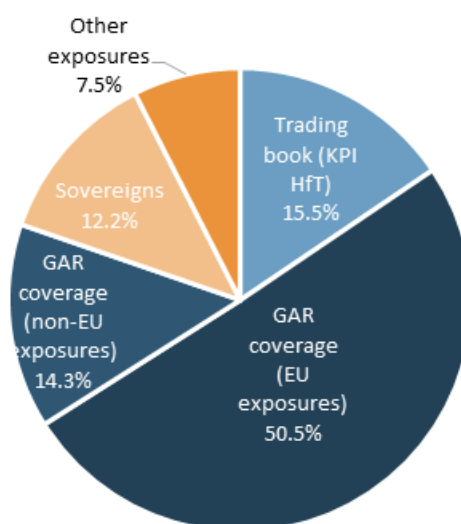
338. Facilitating measures for data availability are stated as the European Single Access Point to include a specific segment on taxonomy-related disclosures, the adoption by European institutions of measures that facilitate the availability and machine-readability of ESG information, methodologies to be developed for undertakings falling outside the scope of the NFRD, and development of an open source internet tool for disclosure data.

ANNEX III – Aggregate coverage of KPIs proposed for credit institutions

339. KPIs have been proposed to cover the following counterparties: credit institutions, other financial corporates, non-financial corporates (including SMEs) and parts of retail exposures (loans collateralised by immovable property and consumer credit loans). The EBA’s reporting data allow for a better understanding of the proportion of EU credit institutions’ assets that would be covered by the KPIs proposed. This section provides an overview in that respect of the different types of exposures, counterparties and geographies relevant for the considerations that have been discussed in this CfA.

340. The proposed EU GAR covers more than 50% of EU banks’ total financial assets (as of Q3 2020). The non-EU information on the green asset ratio on ‘best effort basis’ by credit institutions with non-EU subsidiaries would cover up to 14% of banks’ total financial assets, whilst the KPIs for assets held for trading would cover up to 15.5% of total EU banks’ assets (noting that not all banks will disclose KPIs for assets held for trading, see section 3.2.5). Approximately 20% of EU banks’ aggregate financial assets would not be covered by any of the KPIs proposed (namely sovereign exposures, central bank exposures and retail exposures other than mortgages and consumer credit - see Figure 25).

Figure 25: Coverage of the KPIs proposed in the advice (as a share of total EU financial assets)

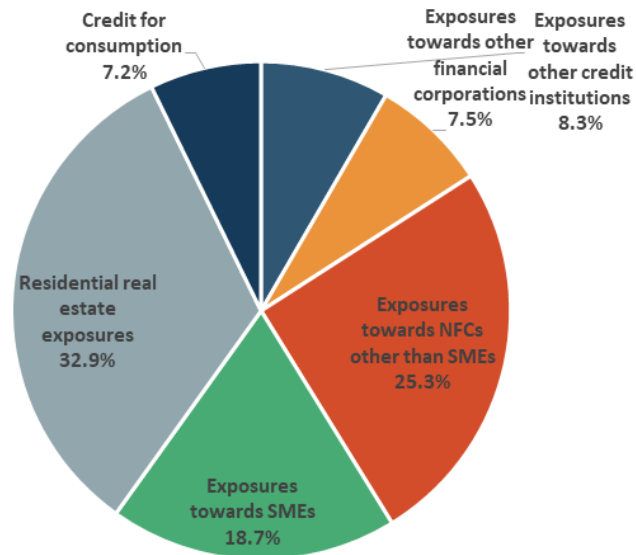


Note: ‘Other exposures’ include central bank exposures and retail exposures other than mortgages and consumer credit. Source: EBA FINREP Data.

341. In terms of exposures to different counterparties and their eligibility under the GAR on EU exposures, residential real estate exposures account for the highest share (32.9%), followed by

NFCs other than SMEs (25.3%), and SMEs (18.7%). The remainder is made up of exposures to other credit institutions (8.3%), exposures to other financial corporates (7.5%) and consumer credit (7.2%) (see Figure 26).

Figure 26: GAR on EU exposures: share of different counterparties (as of Q3 2020)



Source: EBA FINREP Data.

Figure 27: EU institutions' exposures by different types, counterparties and geography as of Q3 2020

Trading book	<i>EU average</i>	
Share of the trading book as a % of total financial assets	15.5%	
	<i>EU average: Share of total financial assets</i>	<i>EU average: Share of total financial assets (excl. trading book)</i>
Counterparties*		
Share of sovereign exposure (%)	12.2%	14.5%
Share of exposures to credit institutions (%)	6.8%	8.0%
Share of exposures to other financial corporations (%)	6.4%	7.6%
Share of NFC exposures (%)	27.9%	33.1%
<i>Share of loans to SMEs (%)</i>	<i>10.9%</i>	<i>12.9%</i>
<i>Share of NFC loans collateralised by immovable property (%)</i>	<i>6.0%</i>	<i>7.1%</i>
Share of retail exposures (%)	29.8%	35.3%
<i>Share of retail exposures collateralised by immovable property (%)</i>	<i>19.3%</i>	<i>22.9%</i>
<i>Share of consumer credit (%)</i>	<i>4.3%</i>	<i>5.0%</i>
EU exposure**	<i>EU average</i>	
Share of EU institutions' exposures to the EU (equity instruments, debt securities, loans and advances) (%)	77.2%	
<i>By selected counterparties:</i>		
Credit institutions: share of EU exposures (%)	62.2%	
Other financial corporates: share of EU exposures (%)	59.3%	
NFCs: share of EU exposures (%)	74.9%	
SMEs: share of EU exposures (%)	86.7%	
Household: share of EU exposures (%)	85.7%	

*Nominators exclude the trading book. **Shares refer to non-trading book exposures only.

Source: EBA FINREP Data.

343. The implied overall coverage of the proposed KPIs amounts to 75% of total non-trading book exposure of EU banks (see Figure 28). The GAR proposed for EU assets only would in turn cover just under 60% of total non-trading book assets³⁵. Figure 28 provides an overview of the share of the different counterparties and types of exposures discussed in this call for advice.

³⁵ 62.2%, 59.3% of credit institutions and other financial corporates are exposures in the EU. 74.9% of the NFC exposure, 85.7% of SME exposure and 85.7% of retail exposure are in the EU. For retail exposure collateralised by immovable property and consumer credit, no shares of EU exposures are available, but are approximated with the household exposure share in the EU. Hence $(8\% \times 62.2\% + 7.4\% \times 59.3\% + 12.9\% \times 86.7\% + (33\% - 12.9\%) \times 74.9\% + (23\% + 5.1\%) \times 85.7\%)$.

Figure 28: EU banks' exposures by different types, counterparties and geography as of Q3 2020

	EU average	Min	Max	Median
Trading book				
Share of the trading book as a % of total financial assets	15.5%	0.0%	41.8%	2.3%
Counterparties				
Share of sovereign exposure / total non-trading book exposure (excl. cash balances) (%)	14.5%	0.2%	89.3%	15.3%
Share of exposures to credit institutions / total non-trading book exposure (excl. cash balances) (%)	8.0%	0.1%	90.1%	6.0%
Share of exposures to other financial corporations / total non-trading book exposure (excl. cash balances) (%)	7.4%	0.0%	25.6%	4.4%
Share of NFC exposure / total non-trading book exposure (excl. cash balances) (%)	33.0%	0.0%	69.0%	32.5%
<i>Share of loans to SMEs / total non-trading book exposure (excl. cash balances) (%)</i>	12.9%	0.0%	60.0%	14.3%
<i>Share of NFC loans collateralised by immovable property / total non-trading book exposure (excl. cash balances) (%)</i>	7.1%	0.0%	64.6%	7.9%
Share of retail exposure / total non-trading book exposure (excl. cash balances) (%)	35.4%	0.0%	85.8%	36.1%
<i>Share of retail exposure collateralised by immovable property / total non-trading book exposure (excl. cash balances) (%)</i>	23.0%	0.0%	80.2%	23.5%
<i>Share of consumer credit / total non-trading book exposure (excl. cash balances) (%)</i>	5.1%	0.0%	59.6%	2.6%
EU exposure				
Share of EU banks' exposure to the EU (equity instruments, debt securities, loans and advances) (%)	77.2%			
<i>By counterparty:</i>				
Credit institutions: share of EU exposure (%)	62.2%			
Other financial corporates: share of EU exposure (%)	59.3%			
NFCs: share of EU exposure (%)	74.9%			
SMEs: share of EU exposure (%)	86.7%			
Household: share of EU exposure (%)	85.7%			

Note: The maximum shares for sovereign exposure and credit institution exposures are outliers. All other banks have shares generally below 50%.

Annex IV - Other feedback from the industry

344. The EBA has engaged and closely interacted with representatives of credit institutions and investment firms in order to collect technical input and feedback for the EBA policy work on ESG disclosures, including the response to the Commission's call for advice on disclosures under Article 8 of the Taxonomy Regulation and the development of technical standards on Pillar 3 disclosures on ESG risks by institutions under the scope of the Capital Requirements Regulation (CRR)³⁶:

- The EBA launched a survey on disclosures of ESG risks, published on 16 September, addressed mainly to large credit institutions (the 'Survey'). The Survey included the three questions that the EBA is asked to respond to in the CfA, together with questions regarding carbon related exposures, physical risk, other environmental risks, and social and governance risks. Institutions had until 17 October to respond to the Survey. The EBA received 54 responses from different types of institutions (universal banks, saving banks, credit cooperatives, public banks, industry associations and development banks).
- The EBA also held bilateral meetings with industry associations, where EBA staff had the opportunity to exchange views and interact with the associations' representatives and with their members.
- Finally, the EBA held, on 20 October 2020, a workshop with banks and banking associations. An open discussion with the participants followed a set of presentations from the EBA, the European Commission and the JRC. Industry representatives had the opportunity to explain their views and provide technical feedback on several topics, which included the definition of a green asset ratio (GAR), the application of the EU Taxonomy to banks' activities, exposure classification and KPIs for carbon-related environmentally harmful exposures, information on Scope 3 emissions and KPIs, and classifications relevant for the purpose of disclosures on physical risk.

345. The EBA has, in addition, liaised with investment firms and the competent authorities in charge of their supervision to collect evidence and technical input for the EBA's response to the CfA, and an ad-hoc survey for investment firms was also conducted

346. Finally, the EBA launched a case study with a selected group of banks on 24 November to better understand the specific costs associated with KPIs to be proposed as part of the response to the CfA (please refer to section 7 of this report).

³⁶ Article 434a of the CRR mandates the EBA to implement the prudential disclosure requirements included in Article 449a of the same Regulation, according to which large institutions with traded issuances shall disclose information on ESG risks, including transitional and physical risk

347. This section presents an overview of the feedback, main findings and conclusions received from the surveys and from meetings and workshops with credit institutions.

7.3 Summary of the feedback received – Credit institutions

7.3.1 Responses to the EBA survey

348. The majority of institutions participating in the Survey do not include qualitative or quantitative information on ESG risks in their Pillar 3 reports. However, the results show that the information contained in non-financial reports may provide a starting point for future Pillar 3 disclosures. Moreover, approximately half the respondents claim to be disclosing information from a double materiality perspective. The disclosure of qualitative information on climate-related and/or other environmental risks includes, at least to some extent, information on business strategy and business model, governance, risk management and other information. In most cases, the quantitative information on climate-related and/or other environmental factors disclosed is not aligned with the information and metrics included in the Commission non-binding guidelines on reporting of climate-related information or/and in the EBA Action Plan on Sustainable Finance.

349. In general, respondents support the disclosure of the share of taxonomy-aligned assets. They consider that the KPIs provided in the EU Taxonomy Regulation for non-financial corporates (NFC) in terms of turnover, Capex and Opex are not suited for institutions' reporting and that, alternatively, a green asset ratio (GAR) would be a better fit for purpose. While supporting the GAR as an appropriate KPI to show the taxonomy alignment of banks, respondents also raise some drawbacks, linked to the strict screening criteria proposed by the Taxonomy Regulation for an activity to be considered as 'green', the availability of data, or the need to apply holistic assessments for monitoring banks' activities.

350. The vast majority of institutions do not currently disclose a GAR, not even in terms of estimates and ranges, or qualitative information on how they plan to develop one. In most cases (approximately 75% of respondents), institutions do not use the EU Taxonomy for their definitions and criteria. Banks' green disclosures do not generally take the form of ratios but rather commitments to provide a certain volume of green finance in a certain period of time, or qualitative information on their environmental strategy.

351. Regarding the calculation of a GAR and the metrics proposed in the EBA Action Plan on Sustainable Finance and the Commission non-binding guidelines on climate-related reporting, institutions tend to agree that the proposed metrics are appropriate for estimating a GAR for corporate exposures, for residential real estate portfolios and for bond portfolios.

352. One frequent recommendation is to calculate the GAR as the proportion of the 'Volume of Eligible Financial Assets that are EU Taxonomy-aligned' / 'Total Eligible Financial Assets', with Eligible Financial Assets defined as 'all asset classes for which the EU Taxonomy can apply', with the appropriate phasing.

353. Considering financial or broader commercial activities to be included/excluded in Article 8 disclosures, the majority of respondents expressed a preference for focusing on credit (and to a lesser degree investment) activities, in particular on those asset classes where the Taxonomy is more easily applicable, such as corporate loans and/or project finance facilities with specified use of proceeds.
354. Institutions tend to agree that exposures to non-EU, retail and SMEs raise big challenges as the EU Taxonomy criteria are not applicable or appear to be complex and less suitable. At the same time, some banks noted that, at least in the form of qualitative or complementary information, their contribution to sustainability (environmental objectives other than climate-related, social impact, etc.) should also be captured, including the sustainable solutions they offer to retail customers and SME clients.
355. The proposed eligible assets include all banking products with the use of proceeds covered by the EU Taxonomy, including general purpose loans to companies undertaking EU Taxonomy-compliant activities, performance bonds to support an EU Taxonomy-aligned activity, financial guarantees to support the payment obligations arising from financing an EU Taxonomy-aligned activity and, in the medium-term, mortgage loans, once data are available. There is extensive agreement that disclosures should include information in terms of the stock of loans and new lending.
356. There is broad consensus that the following products should be left out of the GAR calculation: general purpose loans (unless to companies with EU Taxonomy-compliant activities), reserves in central banks, trading book assets, hedging derivatives and sovereign debt, in the absence of disclosures or methodologies to assess their alignment.
357. Only a minority of institutions claim that there should be a specific metric to disclose the GAR for a trading portfolio. Respondents expressed concerns that trading book assets do not serve a financing purpose for green exposure monitoring and that a GAR for a trading portfolio would be very volatile and could lead to 'window-dressing' practices distorting market prices.
358. Most institutions do not disclose a ratio indicating environmentally harmful exposures³⁷. About 40% of institutions agree at least partially that the metrics included in the Commission non-binding guidelines on climate change reporting are appropriate and around half of them that the metrics reflecting concentration risk on environmentally harmful assets are appropriate.
359. A small number of institutions also disclose information on Scope 3 emissions, including emissions related to activities of their counterparties. Most of the institutions disclosing Scope 3 emissions use the methodology of the PCAF Global Carbon Accounting Standards.

³⁷ This document uses the term 'brown' as this was the wording used in the survey. However, for drafting going forward the terminology may need to be changed and aligned with the Taxonomy Regulation or the work of the Platform on Sustainable Finance (e.g. 'environmentally harmful exposures', 'high impact activities').

360. Those institutions disclosing qualitative information on social risks provide at least to some extent information on business strategy and business model (77%), governance (79%), risk management (77%) as well as other information (68%). Some institutions provided in their response examples of the disclosures of quantitative information.
361. Those institutions disclosing qualitative information on governance risks provide, at least to some extent, information on business strategy and business model (65%), governance (69%), risk management (67%) as well as other information (41%). Some institutions also provided examples of the disclosures of quantitative information.
362. Regarding the interaction of Pillar 3 information with other frameworks, most institutions agree that information to be disclosed in Pillar 3 reports is or should be complementary to information to be disclosed under other pieces of regulation (including the SFDR, NFRD and EU Taxonomy Regulation) with some common information relevant for the different frameworks. A high number of institutions highlight the need to reduce the reporting burden and ensure consistency across the various reporting formats with coordination in the policy work and harmonised definitions needed.
363. Regarding the scope of Pillar 3 disclosures in terms of transition risk, institutions tend to agree that the information should be assessed together with counterparty's carbon emission strategies and with how a bank is managing the transition risk. Most respondents agree that an institution which aims to improve its green asset ratios and/or reduce its brown asset ratios is mitigating its exposures to transition risks. Information on mitigating actions in the case of Pillar 3 disclosures should cover not only information on exposures financing economic activities compliant with the Taxonomy, and information on the GAR should be complemented with information on other mitigating actions. Respondents agree that prudential disclosures should include forward-looking information.
364. A number of reservations regarding the classification of exposures have been expressed. According to some institutions, a company's transition cannot be purely measured by a point in time classification of 'green'/'brown' and a GAR cannot measure risk. Additionally, institutions note that an increase in the GAR could be purely a result of increased data availability.
365. In general, institutions agree that the classification of exposures in terms of the level of exposure to physical risk should follow criteria based on the geographical location of the exposure and the identification of those geographies more exposed to physical risk. Respondents also indicate that this classification should consider other criteria.
366. Institutions agree that it is challenging to obtain access to the information that they need from their counterparties in order to prepare their own disclosures. Respondents tend to agree that the NFRD review should provide a very good basis for addressing the lack of available information from institutions' counterparties and that the implementation of the EBA Guidelines on loan origination and monitoring should help them get the information that they need on a bilateral basis. Respondents expressed a need for a centralised database for

companies subject to NFRD reporting, where benchmarking at EU level could be established. Institutions would appreciate a realistic and pragmatic approach for banks' disclosure requirements, including considering phasing in the requirements as data become available.

7.3.2 Feedback from bilateral meetings with stakeholders and the EBA workshop

367. Many elements of the feedback received from institutions during engagements matches the information collected in the Survey. The main findings are described below.

- Disclosure should differentiate between information on stocks of loans and flows, which should provide a good view of the transitioning part.
- The classification of exposures should be based on the information of the counterparty, either public information or information received on a bilateral basis.
- General loans could be classified depending on the percentage of the counterparties' activities that are covered by the EU Taxonomy and aligned with it, the percentage covered but not aligned with the EU Taxonomy and the relative part of their activities that are not covered by the EU Taxonomy. In those cases where the information is not available, proxies could be applied.
- There is a need to complement the disclosure of the GAR that shows the part of institutions' balance sheets that is aligned with the EU Taxonomy with the information on fees and commissions for commission-generating businesses.
- Institutions raised concerns about the use of the EU Taxonomy that could leave out exposures that are considered by them as green but that are not taxonomy-compliant.
- Some institutions suggested the introduction of sector-specific KPIs, rather than aggregate KPIs for the lending portfolio.
- Institutions underlined the importance of defining risk indicators focused on harmful activities, and not only a GAR, for the purpose of the EBA technical standard on Pillar 3 ESG disclosures.
- Institutions agreed on the use of Energy Performance Certificates for mortgage portfolios as the best estimate in residential real estate, acknowledging problems with information on (particularly older) stocks of loans.
- Institutions expressed a need to delimit the exposures to be considered under the GAR. Most of the feedback received points out the convenience of excluding trading portfolios (given the short-term nature of the holdings), exposures to central banks and sovereigns.

- Concerns have been expressed regarding the possible creation of a brown list of exposures/sectors that could be harmful as it could create a 'black list' and fears of some industries being left behind.
- Disclosure of information on harmful exposures should be accompanied with information on how the institutions plan to mitigate the risks associated with those exposures.
- Institutions underlined challenges in measuring Scope 3 emissions. Several participants highlighted the complexity related to the availability of emissions data for small companies and that clients are often not aware of their own footprint.
- Concerns were raised about disclosures related to social and governance risk in general, not only because there is no taxonomy, but because of the lack of common definitions and clear guidance.
- Institutions expressed a need for a staged approach, which entails the phase-in of disclosure requirements.
- According to the institutions, draft ITS on Pillar 3 ESG disclosures and disclosures under Article 8 of the Taxonomy Regulation should build on the TCFD and EBF/UNEP-FI work.
- Institutions emphasised the difficulties of applying the EU Taxonomy and classification for exposures outside the EU – they suggested different options including separate treatment/disclosures of information on exposures inside the EU and outside the EU.
- Institutions also stated the challenges in relation to the level of granularity and the difficulty of assessing the 'do no significant harm' (DNSH) criteria in practice.
- Challenges relating to the use of common databases and common criteria for geographical classification in terms of level of exposure to physical risk were also brought up.



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