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**Information request for banks´ experiences on tracking risk profiles related to the “greenness” and/or “brownness” of financial assets**

During its first year, the NGFS has performed some exploratory stock taking regarding available studies on climate-and environment related risks and data related to the default rates of “green”, “non-green” and “brown” assets[[1]](#footnote-1). The stock take shows a need for a more thorough examination of existing studies, as well as further fact-gathering and analyses. The latter goal could be achieved through conducting individual case studies with the help of a limited universe of banks on a voluntary basis. The aim of these studies would be to further explore whether a risk differential can be detected between “green”, "non-green” and “brown” financial assets (loans, bonds and equities, where applicable), while taking into account that only a few jurisdictions have introduced a national taxonomy or regulations in this respect.

We are aware of that banks may be working on these issues in many different ways, including qualitative and quantitative approaches and that internal classifications and/or taxonomies may still have to be developed. Respondents are therefore encouraged to answer those parts of the questionnaire which they find relevant and to provide as much information as possible, even if some of it may seem out of scope for the question being posed. Some questions may seem overlapping, depending on the individual bank´s activities and experiences. Respondents may choose to lump the answers to such questions together, as long as it is possible to refer the answer to the relevant questions.

The answers provided by the participating banks will remain confidential. Individual answers will be shared only within the NGFS team in charge of the analyses, which will be conducted at an aggregate level. Nevertheless, should respondents have information that could be valuable for this exercise which they deem to be of such confidential nature that they prefer not to share it with us in a questionnaire and/or attachments, they can indicate how they would like to forward it to us.

**Information request**

For each question in the below questionnaire, please provide as you see fit:

* Data samples, summary statistics and other outcomes/tables (e.g. regression analysis where relevant);
* Examples/case studies;
* Internal policies or other internal documents;
* Ongoing projects and developments in relation to the question;
* Additional information on topics that are not raised by the questionnaire but that remain relevant to its scope.

For questions related to risk profiles and default rates, please provide information in a discretionary selection of credit portfolios. Bond data (if available) is also welcome. The key aspect is that selected data should contribute to providing an answer regarding whether a risk differential between green and brown can be detected. As there is no common taxonomy available, please indicate which taxonomy/classification you have used.

**Questionnaire**

Please indicate if you accept to share your responses to this questionnaire with the European Banking Authority (EBA). The EBA is a member of the NGFS and it is actively engaged in the NGFS working group that has been tasked with carrying out this survey. In addition, the EBA has been mandated by CRR article 501c to assess whether a dedicated prudential treatment of exposures related to assets or activities associated substantially with environmental and/or social objectives would be justified, including by analyzing methodologies for the assessment of the effective riskiness of those exposures compared to the riskiness of other exposure. Given the commonalities and interlinkages between the work that will be undertaken by the EBA Sustainable Finance Network, involving competent authorities, to deliver on this mandate and the current NGFS information request, we would highly appreciate if the same data could be used for both tasks in order to avoid duplication.

YES

NO

1. **Background information on the work performed by the bank**

* Has your institution undertaken any in-house studies and / or analyses regarding the possible correlation between the credit risk of a financial asset (loans, bonds) and its level of “greenness” and/or “brownness”?
  + If yes, how was the level of “greenness” and/or “brownness” defined and what conclusions did you arrive at?
* Has your institution developed specific risk metrics, targets or exposure limits based on environmental-and/or climate-related risk factors?
* If yes, please describe them and please also elaborate on to what extent those measures were based on a credit risk analysis applied to certain assets or activities (on a backward or forward looking basis).

1. **“Green”, “non-green” and/or “brown” taxonomy/classification for financial assets**

* Are you using/planning to use any existing national or international taxonomy?
  + Do you have an internal taxonomy/classification for determining the “greenness” and/or “brownness” of financial assets (loans and/or bonds and/or equities)?
  + If not:
    - Please explain why you did not consider it so far (e.g. not relevant to your activity/your clients´ activities, waiting for regulatory guidance, lack of resources (including IT-systems), data and/or methodological challenges, etc.).
    - Do you consider developing such a classification and what kind of challenges do you foresee?
    - Do you use another concept and/or set of definitions linked to determining the level of environmental risk and climate risk of a financial asset? Please describe.
  + If you have an internal taxonomy/ classification:
    - For how long have you used your classification?
    - Which earlier methods (if any) have been used prior to the method in current use? What led up to your use of the current method?
    - To which assets (e.g. loans, bonds, equities, etc.) do you apply the classification?
    - Are all assets within the applicable asset categories included, or does the classification only apply to certain types of exposures within a category (i.e. certain types of borrowers or activities)?
    - At what level does the classification apply (e.g. by industry, asset class, type of borrower, type of activity)?
    - How do you classify the assets (e.g. corporate ESG ratings, “use of proceeds”, according to established standards - if so: which standards)?
    - What are your experiences with using the classification? Please describe challenges as well as areas identified for improvement (if any).
  + Loans
* Have you issued “green” loan products? If so, please describe their characteristics and how their performance is monitored. Have you been able to identify a difference in the inherent credit risk level of these products compared to the credit risk of comparable, “non-green” loan products? If so, have you been able to refer such a difference to the “greenness” of the loans?
  + Bonds
    - Do you have green bonds in your portfolio? How do you identify the “greenness” of these bonds (e.g. which standards do you use)?
    - Have you issued green bonds? According to which standards? How is “use of proceeds” monitored?

1. **Specific risk profiles of “greenness” and “brownness”** 
   * Do you track whether “green” or “brown” assets have specific risk profiles (i. e. increased or decreased risk) compared to assets with less distinctive “green” or “brown” characteristics or track any possible risk profile relationship between environmental/climate-related risks and financial risks in a more granular way?
   * If not: Please explain why you did not consider it so far (e.g. not relevant to your activity/your clients´ activities, waiting for regulatory guidance, lack of resources (including IT-systems), data and/or methodological challenges, etc.).
   * In your opinion, what should be the main characteristics of methodologies for the assessment of the effective riskiness of exposures related to “green” or “brown” assets compared to the riskiness of other exposures?
   * If you are tracking the risk profiles, please answer the following questions:
     + Do you use your own internal taxonomy/classification, as described under section 1 above?
       - If no, please describe what taxonomy/classification is used.
     + Please describe your methodology for tracking the risk profiles.
     + For which financial assets is the tracking performed (e.g. loans, bonds and equities)?
     + At what level is the tracking performed (e.g. by loan level, borrower level, industry, asset class, type of borrower, type of activity)?
     + Have you observed any specific risk profiles (i.e. increased or decreased risk) for “green” or “brown” financial assets, as compared to assets with less distinctive “green” or “brown” characteristics?
       - If so, what are the key findings regarding risk differentials?
       - If a specific risk profile was detected: Have you been able to control whether the specific risk profile is due to the “green/brown” characteristics of the financial asset or to other characteristics?
       - Do you control for biases which may influence the abovementioned specific risk profile?

* Are environmental and/or climate-related risks integrated into your internal risk classification (IRB)?
* If so, please explain how and what factors are included. E.g. are they included in the quantitative or the qualitative factors? Are they taken into account in your calculations of probability of default and loss given default? Please describe what conclusions you have been able to draw regarding the PD/LGD performance of loans with different profiles from an environmental and/or climate-related risk perspective.
  + - If not, do you use an alternative approach? Please describe.
    - If not: Have you performed an analysis on the correlation of the greenness/brownness of the asset and the risk bucket to which the loan is assigned?

1. Please see the NGFS first comprehensive report “A call for action”, published in April 2019 (pages 26-27) [↑](#footnote-ref-1)