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

High level recommendations

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EU Taxonomy and its expected application to banks

**Taxonomy Regulation**

**Corporate Disclosure Regulation**

**Banks’ Disclosure Regulation (pillar 3)**

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**Consultation Paper**

Draft Implementing Standards
don prudential disclosures on ESG risks in accordance with Article 449a CRR
Objectives of the report

Provide a high-level feasibility assessment of the EU Taxonomy to core banking products
- Survey amongst 25 banks
- Assess internal frameworks
- Mobilize product teams
- Identify key challenges and solutions

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

Issue recommendations based on the project findings
- Recommendations to:
  - Banks
  - Regulators
  - Policy makers
  - Other stakeholders
- Complement UNEP FI Principles for Responsible Banking and EBF Sustainable Finance strategy
- Align with EC delegated acts on EU Taxonomy
- October/November 2020
### 26 banks testing application of the EU Taxonomy

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

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

#### Observers
- European Banking Authority
- European Commission
- European Financial Reporting Advisory Group
- European Investment Bank
- European Investment Fund
- Principles for Responsible Investment (PRI)
3 Step approach to a coordinated and evidence-based industry view

Current practices and gap analysis based on questionnaire

Case studies

Group discussions on sector and product type

Recommendations to key stakeholders and peers
26 published case studies (out of 40 in total)

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

Strictly aligned\(^1\): 0
Aligned with assumptions: 7
Partially aligned: 8
Not aligned or not aligned yet: 4
Inconclusive: 7

\(^1\)no assumptions, all data available

Real estate
Transportation
Manufacturing
Forestry
Energy
Telecoms

EU based (75%)
Non-EU (25%)
Key benefits of applying the EU Taxonomy

• **Levelling the playing field in the banking industry**, reputational enhancement, i.e. “reducing greenwashing”
• A homogenous and **rigorous evaluation of clients’ environmental performance**
• **Supporting bank-to-client engagement** efforts and bringing direction and confidence to banks’ clients
• **Increased business opportunities** and potential increased demand for sustainable finance products
• Boosting the **availability and quality of corporate data for sustainability**
• Supporting **harmonisation of reporting**
### Key challenges of applying the EU Taxonomy (1/2)

<table>
<thead>
<tr>
<th>1. <strong>Unspecified use of proceeds</strong></th>
<th>Classifying and assessing the transaction accurately according to business activities.</th>
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<tbody>
<tr>
<td>2. <strong>Data related challenges</strong></td>
<td>Data availability, quality, granularity, comparability, standardization, relevance, verification and handling time, particularly for:</td>
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<td></td>
<td>• Retail clients and SMEs: complexity, lack of resources, expertise and incentives.</td>
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<td>• Non-EU based asset: lack of regulatory alignment and incentives.</td>
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<td>• Do No Significant Harm and social safeguards (DNSH) and Minimum Social Safeguards (MSS): lack of evidence of alignment, insufficient granularity.</td>
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<td>3. <strong>Operational challenges</strong></td>
<td>• Assessment and classification processes</td>
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<td>• Linking EU Taxonomy classification by economic activities to clients’ business activities</td>
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<td></td>
<td>• Use of NACE classification differs from existing practices and existing classification schemes; Application of NACE at single entity level;</td>
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<td>• Increased documentation, monitoring and time necessary to complete; monitoring use of proceeds.</td>
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<td>• IT infrastructure: Adaptation of internal information processes: cost of development of IT tools, lack of common nomenclature necessary for data collection and automation.</td>
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### High level recommendations 1/2

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

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

As far as possible, define the use of proceeds of the loan or credit facility.

When use of proceeds is not specified, classify exposure on the basis of clients’ business activities.

Decide into which Taxonomy category the transaction, activity or company falls - Mitigation, Adaptation, Enabling, Transitioning, etc.

Subject to a materiality judgement, DNSH and MSS assessments may rely on:
1. assumed compliance of clients and assets with relevant legislation; 2. use certification schemes and labels

TSC for Substantial Contribution should be strictly met and based on evidence.

Require clients to disclose the necessary information to meet TSC, DNSH and MSS.
Phase II 2021

Workstream 1

Product guidelines and reporting templates
Recommendation 8

Workstream 2

Technical collaboration with EU Platform SG5
Banking products and data: Recommendation 8 & 5

Workstream 3

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

Workstream 4

Innovation and other uses
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