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ECB Reports Progress, Identifies Gaps in Banks' Climate-Related Disclosures

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In April 2023, the European Central Bank (ECB) published its **2022 assessment** of climate-related and environmental risk disclosures of EU-based banks, finding that while most “significant institutions” “now disclose at least basic information” in most climate-related categories, an improvement relative to the ECB’s 2021 assessment, the quality of information remains “low and is unlikely to provide market participants with insights on which they can act.” The report is the third such assessment carried out by the ECB as part of its wider objective to ensure that the European banking sector discloses climate and environmental risk effectively and comprehensively. The ECB’s 2022 assessment examined 103 significant banks, all under direct supervision of the ECB itself, as well as 28 “less significant institutions.” The ECB also examined the disclosures of 12 banks **from its list** of global systematically-important banks based outside the EU in order to provide an international benchmark.

The ECB observed considerable progress against previous years: the percentage of significant institutions that disclosed material exposure to climate and environmental risks was 86%, up from 36% a year ago. Approximately 85% of banks examined reported on their board of directors’ and senior management’s oversight of climate risks, up from about 70% in the previous review. More than 90% of institutions provided basic descriptions of their identification and management of environmental and climate risks. However, “banks still need to close remaining gaps to disclose all relevant [climate] risk information as only 34% of the banks disclose information on all categories,” and the information disclosed remains “qualitative and often generic.” Even where “metrics and targets are disclosed, banks often provide limited information on portfolio coverage and definitions and methodologies used to produce the respective information.” With respect to governance disclosure in particular, the ECB identified as an area for improvement the need to provide “more detailed disclosures providing more precise information regarding the interface between the respective committees, the flow of information among the three lines of [defense], the bottom-up and top-down provision of

information, the frequency of reporting and the transversal nature of climate-related risks as embedded in the risk management spectrum of the institutions.”

Scope 3 financed emissions were an area of shift. Traditionally, Scopes 1 and 2 emissions have been mandatory to report, whereas Scope 3 has been voluntary, as they are the hardest to monitor. As Deloitte has **observed**, Scope 3 emissions are nearly always the major factor in corporate climate impact, often accounting for 70% or more of a business’ carbon footprint. With the advance of both technology and regulatory oversight, companies are increasingly able to report all three types of emissions with greater accuracy. The most recent ECB report indicates that 50% of banks are now reporting Scope 3 financed emissions, however “in 85% of cases these are not (broadly) adequate. Overall, a mere 5% of banks made adequate or somewhat adequate disclosure on” all Scope 3 criteria.

The ECB also reported that banks, on the whole, are unprepared to comply with the European Banking Authority’s (EBA) imminent **Implementing Technical Standards (ITS)** on Basel III Pillar 3 ESG risks. Pillar 3 requires a variety of ESG-related disclosures, including qualitative and quantitative information on transition and physical risks, exposure to at-risk sectors and green lending. In line with the final draft ITS, large institutions that have issued securities that are admitted to trading on a regulated market of any Member State will be required to make their first disclosures in June 2023.

Taking the Temperature: We have [previously reported](#) on the Basel III Pillar 3 requirements. Bank regulators globally are, like the ECB, demanding increasing ESG-related risk assessment and/or disclosure from financial institutions, with regulators in [Canada](#), [Switzerland](#), the [U.S.](#) and the [UK](#), among others, weighing in with guidance. We also have [reported](#) on efforts by [financial institutions](#) to develop and disclose GhG emissions financing targets and ESG-related governance procedures.

With respect to its most recent assessment, the ECB is already taking action in relation to poor performers identified by its report. Six of the 15% of banks whose disclosures were considered insufficient overall were determined to be unsatisfactory in all disclosure categories. After publication, the ECB sent individual feedback letters to banks informing them of the outcome of the ECB’s analysis of the shortcomings. The ECB observed that it had also sent requests to several banks to provide plans for how they will address their highlighted shortcomings in order to meet the EBA reporting requirements triggered by ITS in the near future.

The ECB has warned that non-compliance with these standards, having now come into effect for institutions listed in the EU, would constitute a violation of EU law. Frank Elderson, Vice-Chair of the ECB’s Supervisory Board, [told banks](#) that “stricter disclosure rules are taking effect this year. If necessary, we will take the appropriate supervisory actions to ensure that banks comply.” In anticipation of incoming obligation, banks and other financial market participants are already spending significant time and resources on compliance with new regulatory requirements. Financial institutions operating in the EU will want to ensure that they are closely monitoring and expanding their climate-related disclosure practices to keep step with changing expectations from the ECB and other national regulators.