EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Press release

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Banks must get better at disclosing climate risks, ECB assessment shows

- Banks do not fully meet ECB expectations on disclosure of climate and environmental risks
- Significant gaps remain despite progress since first assessment in 2020
- Supervisors informed banks of shortcomings and publish examples of good practice

The European Central Bank (ECB) today published an updated assessment of the progress European banks have made on disclosing climate and environmental risks as set out in the ECB's November 2020 guide. Although there have been improvements since the ECB's first assessment in late 2020, no bank fully meets the supervisory expectations.

Regulation of climate and environmental risk disclosures will become stricter in the coming years, with market participants and the public increasingly expecting more information. Banks therefore need to adjust their practices without delay.

The ECB's updated assessment covered 109 directly supervised banks and focused mainly on disclosures at the highest level of consolidation. Supervisors analysed banks' most recent public information available by 1 November 2021 as well as documents that were part of the ECB's 2021 climate risk self-assessment exercise.

Compared with 2020, more banks now disclose meaningful information on climate and environmental risks. For example, more than 70% of the assessed banks, as opposed to just over 50% in 2020, now explain how their board oversees those risks. However, the overall level of transparency is still insufficient. Roughly 75% of the banks do not disclose whether climate and environmental risks have a material impact on their risk profile, even though around half of the banks that fail to do so have indicated to the ECB that they view themselves as exposed to such risks. And almost 60% of the banks in the sample do not describe how transition risk or physical risk could affect their strategy.

Banks' disclosure of key metrics is also not sufficiently in line with supervisory expectations, with only around 50% publishing key performance or risk indicators on climate and environmental risks. In

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addition, only 15% disclose Scope 3 financed emissions, which cover the emissions that occur along the entire value chain of business activities, including those of counterparties linked to lending portfolios.

Furthermore, many banks do not sufficiently substantiate their climate and environmental risk disclosures. For example, almost 30% of the banks that have committed to aligning their exposures with the Paris Agreement do not provide any information to back this up. As a growing number of banks commit to net zero initiatives, users of bank disclosures will increasingly seek more detailed information on banks' progress and on the ensuing risks should they fail to align.

Supervisors also identified good practices that banks employ, which confirms the sector's ability to adjust. For example, one bank aiming for net zero emissions in its portfolio by 2050 published several interim targets and the progress made toward them, as well as underlying methodologies and scenarios. Also, some banks disclose dashboards on the performance of their loan books in various transition sectors, such as power generation, oil and gas, or automotive, using a science-based transition pathway.

The ECB has sent individual feedback letters to the banks explaining their main shortcomings and expects them to take decisive action. This should also help banks prepare for new regulatory requirements such as the European Banking Authority's binding standards on Pillar 3 disclosures of environmental, social and governance risks. The ECB will review banks' climate and environmental disclosures again at the end of 2022.

Having included climate and environmental risks in its supervisory priorities for 2022-24, the ECB is carrying out several climate-related supervisory activities this year. These include its first ever climate risk stress test and a thematic review on how banks incorporate climate and environmental risks into their processes. In parallel, the ECB is gradually integrating climate and environmental risks into its regular supervisory methodology, which will ultimately impact Pillar 2 capital requirements.

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