EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Press release

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Banks must continue improving climate risk disclosures as new EU rules take effect, ECB report shows

- Most banks have expanded their climate and environmental disclosures, but quality of information remains too low
- ECB expects banks to continue addressing shortcomings and gives examples of good practices
- ECB analysis carried out before new supervisory standards take effect this year
- Non-compliance with new standards will constitute breach of EU law and trigger supervisory action

The European Central Bank (ECB) today published its third assessment of the progress European banks have made in disclosing climate and environmental risks. Although banks have in the past year increased the information they publish, the quality of their disclosures is still too low to meet upcoming supervisory standards. The largest European banks generally have better disclosures than their non-EU based counterparts, but they nonetheless fail to fully meet ECB expectations.

European banks must prepare to comply with tighter EU rules on disclosures of climate and environmental risks that take effect this year. The implementing technical standards (ITS) on Pillar 3 disclosures, a set of reporting standards on environmental, social and governance risks issued by the European Banking Authority (EBA), will apply to most significant banks in the euro area. Eligible banks have to make their first disclosures under the new rules by the end of June 2023.

“We acknowledge that banks have been making progress, but further improvements are urgently needed,” said Frank Elderson, Vice-Chair of the ECB’s Supervisory Board. “Stricter disclosure rules are taking effect this year. If necessary, we will take the appropriate supervisory actions to ensure that banks comply”.

Compared with last year’s assessment, banks have significantly increased the amount of basic information that they disclose across categories. For example, the percentage of significant banks disclosing material exposures to climate and environmental risks rose from 36% to 86%. Moreover, nearly all banks now state how their board oversees climate and environmental risks, and over 90% provide basic descriptions on how they identify, assess and manage these risks.

However, the quality of disclosures is often insufficient. Of the significant banks in the exercise, only 6% disclose at least broadly adequate information in all five categories of the assessment. While 50% of the banks now provide some information on the amount of emissions they finance, in the vast majority of cases this information is incomplete, unspecific or not properly substantiated. As a result, banks appear largely unprepared for the impending EBA standards on Pillar 3 disclosures.

The ECB also for the first time compared the climate and environmental risk disclosures of the largest EU-based banks (global systemically important banks, or G-SIBs) with their non-EU based counterparts. The assessment shows that while EU-based G-SIBs are not yet fully aligned with supervisory expectations, they generally outperform their global peers in all assessment categories.

Supervisors have informed banks of their findings, requesting them to address shortcomings and to provide plans on how they will prepare to meet the impending EBA reporting standards. The ECB's assessment report includes multiple examples of good practices that banks can consider in their efforts to align disclosures with supervisory expectations. In the second half of 2023, the ECB will review whether the eligible banks fulfil the new standards. Non-compliance will constitute a breach of the Capital Requirements Regulation (CRR) and result in supervisory action.

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Notes

- The assessment covered 103 significant banks under the direct supervision of the ECB and 28 less significant institutions supervised by their national authorities. Additionally, the disclosures of 12 non-EU based G-SIBs were benchmarked against the disclosures of their EU-based counterparts.
- Climate and environmental risks are one of the ECB's supervisory priorities for 2023-25, and the ECB is gradually integrating these risks into its regular supervisory methodology. As part of these efforts, the ECB in November 2022 set staggered deadlines for banks to progressively meet all the supervisory expectations laid out in its Guide on climate-related and environmental risks by 2024. It also carried out a climate stress test last year, which showed that banks were not yet sufficiently incorporating climate risk into their stress-testing frameworks and models. For a small number of banks, the outcome of these exercises had an impact on their 2022 Supervisory Review and Evaluation Process (SREP) scores, which in turn affected their Pillar 2 requirements.

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