Countdown to the Green Asset Ratio

Insights from EU banks' second EU taxonomy reporting season

accenture

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Management summary

This year's European Union (EU) reporting season was a rather transitional one. While the required set of eligibility KPIs was published for the second time, and a few methodological questions were able to be resolved, banks are now preparing for the big leap of reporting the Green Asset Ratio for the first time next year.

To gain an understanding of how the methodologies for the quantitative disclosures have evolved and how banks are preparing for the next steps, Accenture analyzed the disclosures of 30 banks from nine European countries. This report sheds light on the key findings.

The beauty of the EU taxonomy for financial institutions

The European Union's taxonomy is an initial classification of green economic activities, which comes with a huge appetite for data.

Standardization and transparency

The EU taxonomy for sustainable activities is a classification system for economic activities. As the centerpiece of the European Commission's 2021 Sustainable Finance Strategy, it primarily provides a uniform and transparent definition of the economic activities which qualify to be designated as 'green'. It does this by spelling out in detail the quantitative and qualitative criteria that these activities must meet. The ultimate goal is to build a climate-neutral economy within the EU.

The taxonomy is at the core of a landscape of far-reaching sustainability regulations that are currently being developed, and which jointly will comprise the framework for the sustainable transformation of the European economy, and thus also the financial industry. Notable examples of these regulations include the Corporate Sustainability Reporting Directive (CSRD) in conjunction with the European Sustainability Reporting Standards (ESRS), the Sustainable Finance Disclosure Regulation (SFDR), the European Green Bond Standard (EUGBS), and the Corporate Sustainability Due Diligence Directive (CSDDD). The focus of the EU taxonomy reporting is the Climate Delegated Act, which includes the two environmental goals: climate change mitigation (CCM) and climate change adaptation (CCA).

Upcoming amendments to the EU taxonomy framework

Based on the current state of information (July 2023), banks will also have to report their eligibility ratios for FY23 and FY24 under the Environmental Delegated Act. This includes the other four environmental goals of the EU taxonomy framework: sustainable use and protection of water and marine resources; transition to a circular economy; pollution prevention and control; protection and restoration of biodiversity and ecosystems. From FY25 on, they also have to report their alignment ratios for the full set of environmental goals.

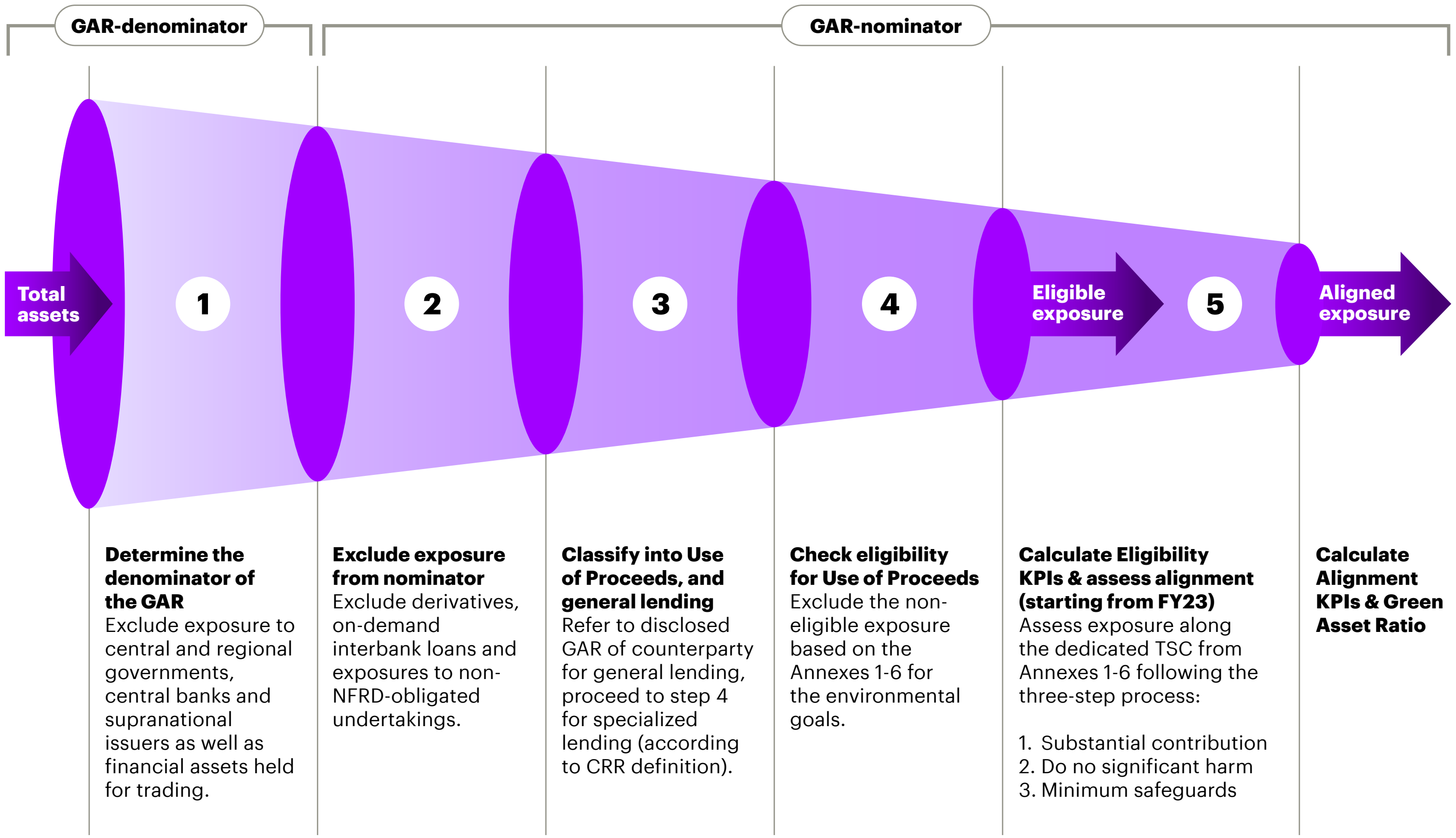
Set of KPIs

At the heart of the EU taxonomy stands Article 8. Banks that are required to publish non-financial information[1] under the NFRD[2] must report information on the taxonomy eligibility of their portfolios since FY21[3] and on their taxonomy alignment from FY23 onwards. In addition, reporting on taxonomy alignment enables banks to report their Green Asset Ratio (GAR). Under the currently applicable simplified reporting obligation, banks are required to disclose only the following seven KPIs[4]:

a. Taxonomy-eligible activities in relation to covered assets
b. Taxonomy-non-eligible activities in relation to covered assets
c. Exposure to undertakings that are not subject to the NFRD in relation to covered assets
d. Exposure to derivatives in relation to covered assets
e. Exposure to on-demand interbank loans in relation to covered assets
f. Exposure to a trading book in relation to total assets
g. Exposure to central governments, central banks and supranational issuers in relation to total assets

When it comes to the calculation of taxonomy-eligible assets from the above categories, the denominator and nominator are determined step-by-step. The approach presented alongside in a simplified form has proven to be effective.

Figure 1: Schematic and simplified calculation process for determining the key figures to be published



Source: Accenture illustration

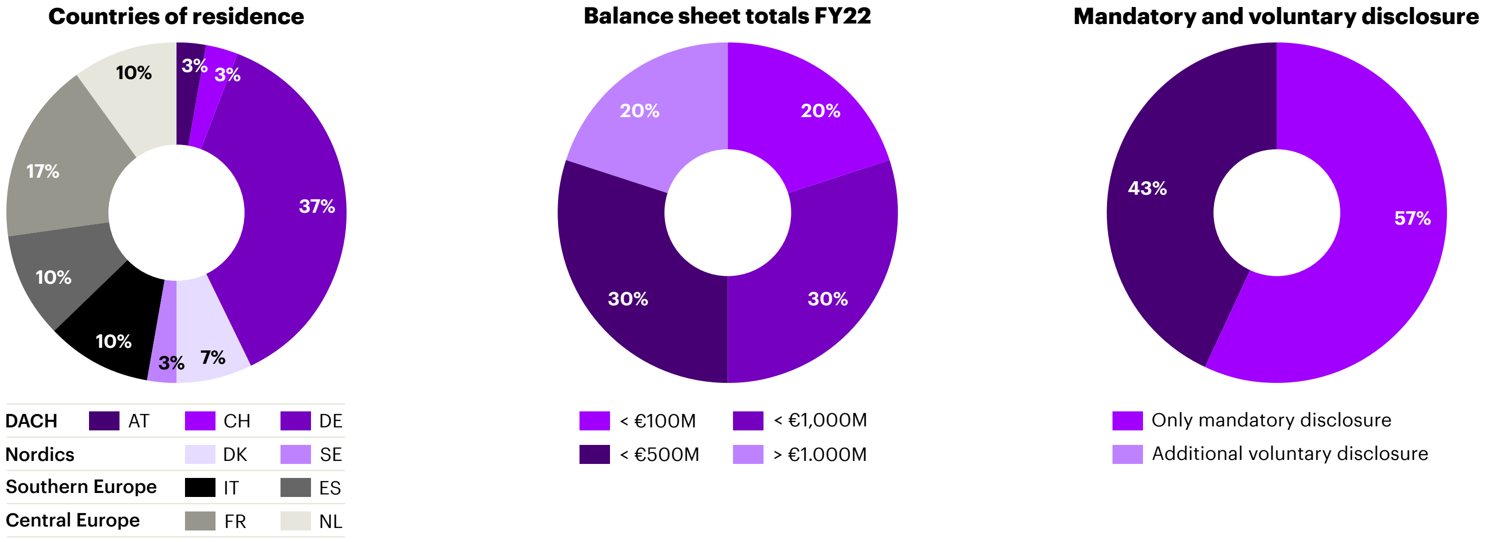
A view of our sample

Accenture conducted a detailed analysis of the second round of disclosures under Art. 8 of the Taxonomy Regulation. Among the banks we surveyed, 43% decided there is a need to underpin their mandatory disclosure with a voluntary one.

Quantitative and qualitative information

For the purpose of our analysis we took a close look at banks' reporting under Art. 8 of the Taxonomy Regulation. We used a sample of 30 European banks, roughly a third of which are German-based with the others located in Central, Southern and Northern Europe. Our selection contained a mix of large and small banks to reflect different business models with the exception of promotional banks. The focus of our investigation was the quantitative and qualitative information provided by banks in their EU taxonomy reports.

Figure 2: Overview of the banks included in the Accenture study



Source: EU taxonomy reports of the analyzed banks.

Need for discussion

Just as in the previous reporting season, it was noticeable that most of the banks in our study provided detailed information to accompany the KPIs. This often went beyond the level of qualitative information that is mandatory to disclose. Although the EU Commission published several FAQ documents detailing the disclosure requirements since the regulation was put into place, the reports reveal there is still great uncertainty surrounding the regulatory framework.

Compared to previous reports, in which half of the banks surveyed voluntarily published additional KPIs, we observed a decline in mandatory KPI reporting this year. Mandatory KPIs are mostly based on proxies or information that is not available with legal certainty but which, in the opinion of the individual banks, better reflect their green engagement than the restrictive and conservative KPIs whose disclosure is mandatory. To ensure the best possible comparability, only the mandatory reporting was considered for the following chapters, unless indicated otherwise.

Eligibility ratios as a first indicator of green business

Disclosed eligible exposure ranges between 1% and 55%, depending on the respective business model and application of the methodology.

Overall increase in eligibility ratios

Our sample revealed a range from 1,0% to 55,0% in disclosed taxonomy-eligible exposure. Both the mean eligibility ratio and the median have increased by 3,85 percentage points, compared to last year's reporting cycle. Exposure which does not have a known Use of Proceeds should be included in a bank's eligibility ratio in line with the reported ratios of the respective counterparties. As the initial eligibility ratios of all financial and non-financial undertakings were published for the first time within the FY21 reporting cycle, banks could not include counterparty ratios in their initial reporting; for FY22 they were able to include them. This extension of KPI-covered exposure is clearly reflected in the FY22 ratios: The inclusion of general lending exposure to non-financial counterparties as well as exposure to financial counterparties led to a broad increase in ratios across the market.

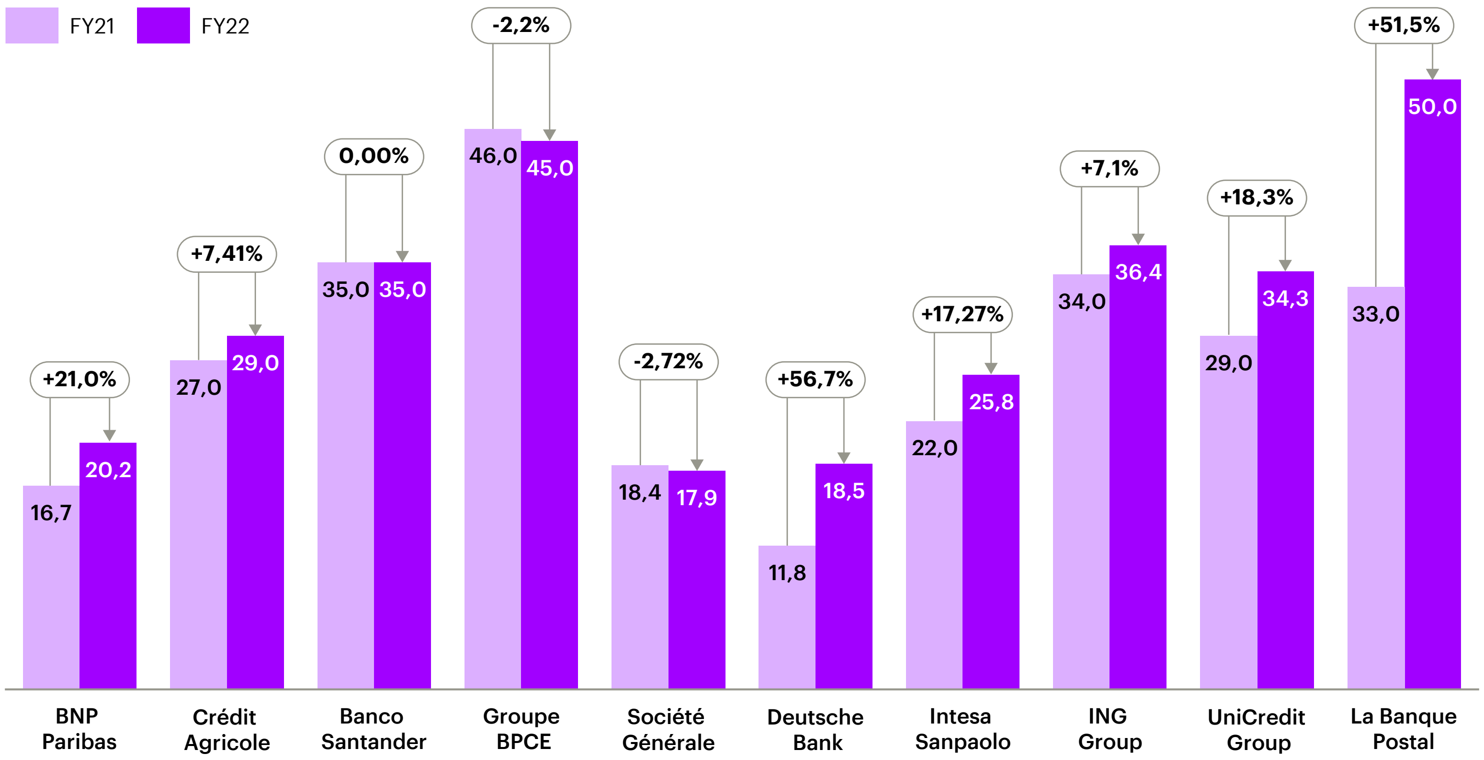
On a concrete note, the eligibility ratios of the ten largest banks in the surveyed set (measured by total assets) are mostly higher than they were in the previous reporting cycle, with Deutsche Bank having the most significant increase of 56,7%. Banco Santander reported an identical ratio to that of the previous year.[5] Two banks, Société Générale and Groupe BPCE, disclosed decreased ratios due to the application of a less conservative methodology in FY21.[6] In general, it was observed that banks with high exposure to NFRD-obligated counterparties were able to improve their ratios the most. This could be seen as an indicator for the GARs, which will be reported for the first time next year.

Better coverage of in-scope exposure types

Unsurprisingly, eligibility ratios across the set of surveyed banks are comprised mainly of household real estate lending volumes, in line with last year's trend. This is due to the fact that the required data attributes for the corresponding filtering already exist in the banks' data warehouses, thanks to other reporting use cases that have existed for some time. In addition, and as already mentioned, counterparty-KPI-based reporting of general lending volumes was introduced this year, as the KPIs were available for the first time. Clearly, they now represent the main driver of increasing eligibility ratios across the set.

Figure 3: Comparison of disclosed eligibility ratios (FY21 vs. FY22)

Ratios in %, sorted by total assets high to low



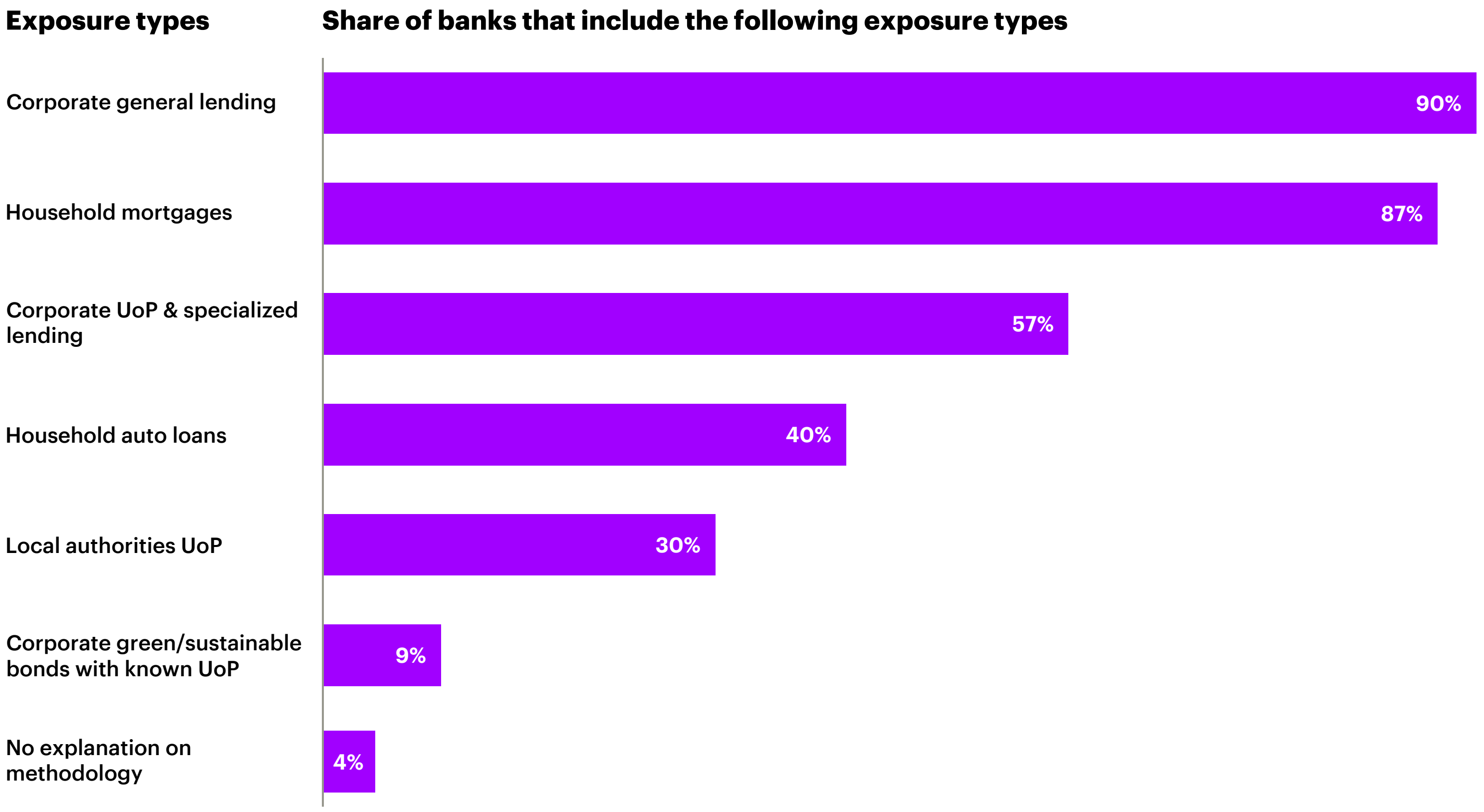
Sources: EU taxonomy reports of the analyzed banks.

In contrast, Use of Proceeds/ specialized lending volumes are only partly included. Limitations are mostly described as the unavailability of different required data attributes. Some banks stated that UoP deals would have a (very) low materiality in their overall business.

Standardization of the calculation methodologies

The FY22 eligibility ratios are more comparable than those of the previous reporting season, thanks to a methodological standardization across the market. The regulation can be interpreted in a way that, under the simplified reporting obligation, banks must calculate all disclosed ratios with reference to their total assets. However, most banks have already been disclosing their eligibility ratio with reference to their GAR-covered assets. In FY21, a very substantial 67% opted to use total assets as their reference value. For FY22, only 20% followed this methodological route, with another 20% calculating their eligibility ratio based on both total assets and GAR-covered assets. Of the surveyed banks, 54% chose to work only with the GAR-covered assets for their disclosure.

Figure 4: Disclosure of the taxonomy-eligible exposure of European banks (FY22)



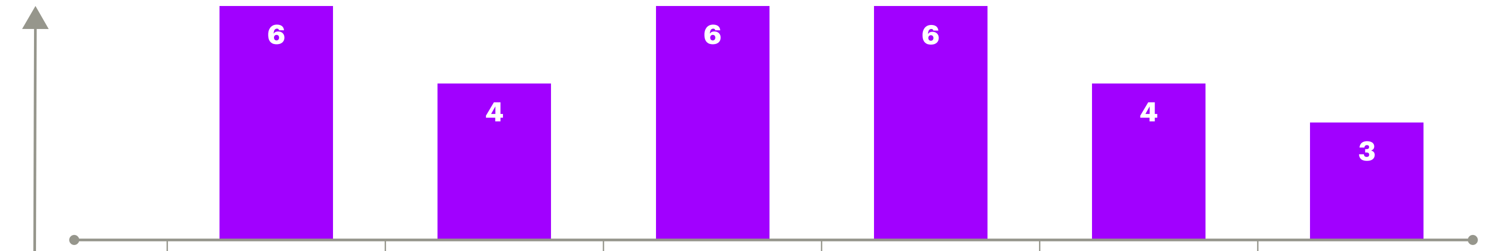
Exposure types have only been included in this analysis only when they have been explicitly mentioned in the banks' report.
Sources: EU taxonomy reports of the analyzed banks.

International tendency towards conservative approaches

The international comparison still shows a general tendency towards conservative approaches, which clearly reflects the strict requirement set out by the regulator. In all the surveyed countries, most institutions tend to exclude from the eligibility quota all assets for which the required data is unavailable with legal certainty. In other words, their approach is summed up by the motto: ‘When in doubt, cut it out’, with information on the counterparties’ NFRD status continuing to be the major pain point.

Some countries are already further ahead than others in their national legislation. In Italy, for example, there is already a register of non-financial-reporting-obligated companies that can be used for EU taxonomy reporting. This example clearly shows that the availability of standardized data sets would make a major contribution to regulatory consistency in the implementation. This has already been recognized by the European institutions, which have announced the establishment of the European Single Access Point for non-financial company data. The details are under discussion.[7]

Figure 5: Disclosure of the taxonomy-eligible exposure of European banks (FY22) by country of domicile



	0-10%	11-20%	21-30%	31-40%	41-50%	51-60%
AT				1		
CH	1					
DE	5	3	3			
DK				1	1	
ES				1	1	
FR		1	2		1	1
IT			1	2		
NL				1	1	1
SE						1

Levels of disclosed taxonomy-eligible exposure

Sources: EU taxonomy reports of the analyzed banks.

Non-eligibility becomes more standardized

The average disclosed non-eligibility for banks' FY22 reporting was 30,8%, reflecting a decrease compared to FY21, when the average was 34%.

Decreasing non-eligibility ratios

Most banks were able to include formerly non-eligible exposure in their eligibility ratios this year, due to available data for counterparty KPIs. This, we believe, is the main reason for the decrease in non-eligibility ratios. In FY21 we observed a mean non-eligibility ratio of 30,8%, a range of 3,0% to 88,2% and a median of 23,0%. For FY22, the mean ratio was 30,9%, the range was 2,0% to 90,0%, and the median was 22,0%.

Underlying references

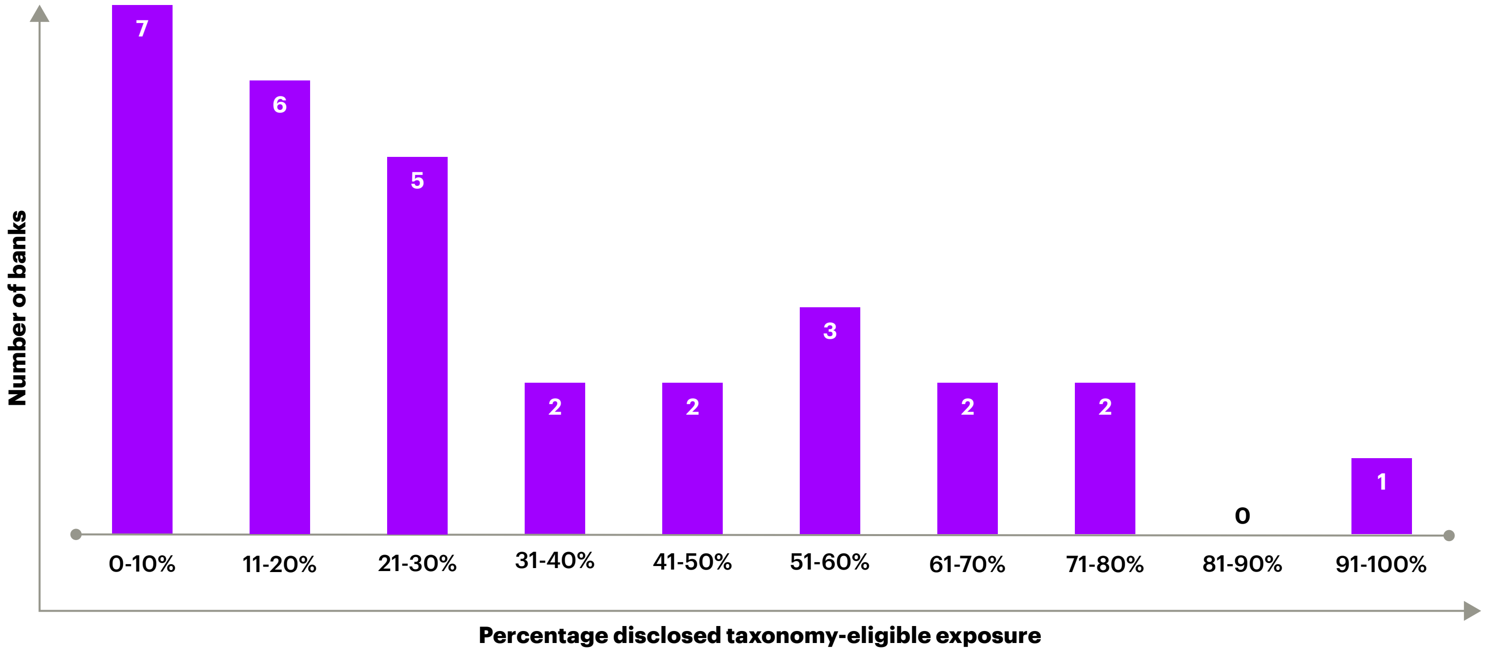
Similar to the eligibility ratio, the disclosure of non-taxonomy-eligible activities shows a decreasing methodological variance compared to the FY21 reference values. Overall, 74% of the surveyed banks chose to calculate their ratios based on the GAR-covered assets, which is one important step to facilitating comparability.

Regulatory interpretation questions of the KPI

The extreme variance of the ratios reported in FY21, due to the different methodologies used to determine them, is not as evident in FY22. This signals that a market standard may be on the horizon—banks appear to be opting for the interpretation of the non-eligibility ratio as a stand-alone rather than a residual KPI. As a reminder: In FY21 there was great uncertainty across the market about whether the non-eligibility ratio should be a residual KPI which includes other KPI volumes such as exposure to undertakings that are not obligated to NFRD, derivatives, on-demand inter-bank loans and trading books.

However, for FY22 it could be observed that a slight shift of methodologies has occurred in the direction of a stand-alone KPI. Hence, we still see distortions which affect the comparability of the ratios, but the trend is toward a standardized interpretation as a stand-alone KPI—which helps to promote a steady increase in transparency across the market. It can be expected that the methodologies might be even more aligned in the next reporting season, when the Annex VI template is required to be used.

Figure 6: Disclosure of the taxonomy-non-eligible exposure of European banks (FY22)



Sources: EU taxonomy reports of the analyzed banks.

The NFRD status of counterparties remains a significant uncertainty

While the availability of reliable counterparty data has increased, a lack of standardized data still causes inconsistencies across the market.

Improved data availability, but further improvement is required

The banks in our study took different approaches to assessing the NFRD obligations of corporate clients. On the one hand, this information is needed to determine the exposure to undertakings not subject to NFRD; on the other, the given NFRD obligation of a counterparty is also one of several prerequisites for an individual transaction to be included in the eligibility ratio.

For FY21, however, it was not yet possible to fall back on this information due to the first-time publication which created a severe time gap.[8] This resulted in the observed trend: the general exclusion of companies from the taxonomy-eligible exposure due to a lack of verifiability, which 37% of the surveyed banks did.

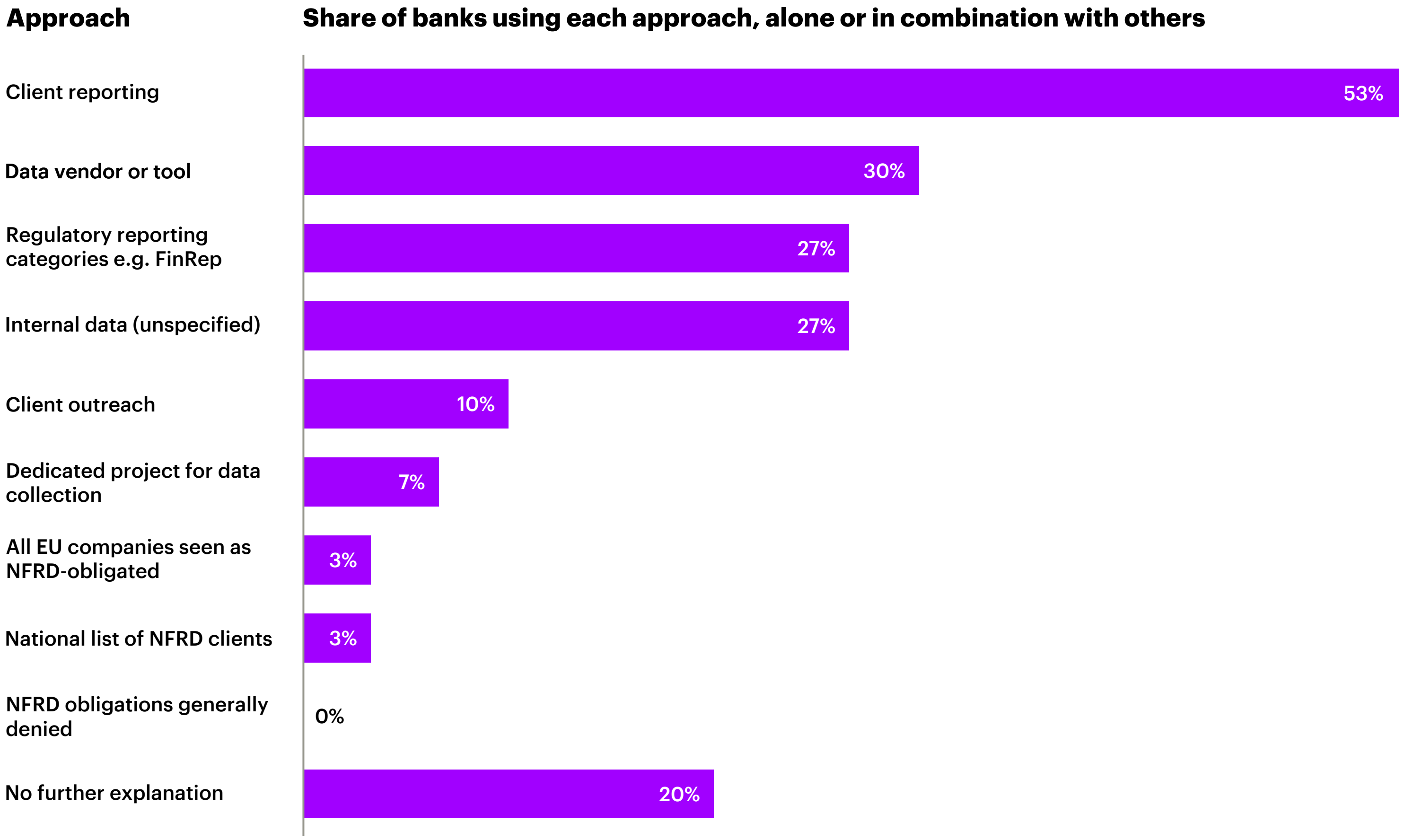
The trend toward exclusion was reinforced by the European Commission's FAQs published in December 2021, which emphasized that estimates are not permitted in the context of mandatory reporting.[9] But in the FY22 reports, no bank could be identified that clearly expressed a general exclusion of corporate exposure in their methodology. This can be interpreted as an effort by banks to shed light on the NFRD 'black box', with different levels of ambition.

A variety of data sources, but hesitance regarding client outreach

For FY22, banks have been utilizing a richly filled toolbox to determine their counterparties' NFRD obligation. The analyzed banks took a variety of approaches, some of which were combinations. One in five offered no elaboration on their approach, but the remaining 80% have been analyzed in detail, as shown in Figure 7. 'Client reporting' was by far the most popularly described source, which should not be a surprise but unfortunately offers no deeper insights into how the data was transfused from clients' reports into the banks' reports.

A few banks did provide these details though: Danske Bank explained that "published financial information [has been] sourced into Danske Bank's systems"[10] while La Banque Postal took a forward-looking approach, saying it would source the relevant data "from reference data providers"[11]. A few banks named their data vendors, like ING which works with Bloomberg[12], and Berliner Sparkasse which received its data from the vendor of its calculation tool, which in turn compiles its data from a variety of sources[13]. Client outreach was mentioned by only 10% of the surveyed banks. Last but not least, 7% of the surveyed banks said they have exerted great effort to run dedicated projects to gather NFRD information.

Figure 7: Overview of European banks' approaches for determining the possible NFRD obligations of their counterparties



Approaches have only been included in this analysis when they have been explictly mentioned in the banks' reports.
Sources: EU taxonomy reports of the analyzed banks.

One example is Deutsche Bank: “Identification of corporations with an obligation to report under the Non-Financial Reporting Directive and their respective taxonomy key performance indicators was performed in a data collection project based on materiality of the in-scope exposures.”[14]

In terms of qualitative statements, many of the surveyed banks pointed out that a European source of data on reporting entities would be of great value. This highlights again the relevance of the European Single Access Point[15]. This would benefit both the quality of the data and the overall consistency of reporting. It could be seen from various statements that even the large data vendors do not currently offer sufficient coverage of the banks’ counterparties, nor will they do so in the foreseeable future. It will be exciting to see how many banks will increasingly integrate the costly step of client outreach, which they were hesitant to take for their FY22 reports.

General approaches are conservative

For all the differences in individual approaches, one thing was common to most banks: When in doubt, they still decided to classify counterparties as not subject to the NFRD. This conservatism regarding the NFRD obligation of counterparties might change iteratively throughout the new reporting period because the availability of required information should improve.

The complex regulatory requirements of the NFRD (e.g. (ultimate) parent logic) are still causing great uncertainty across the board; accordingly, the approaches differ greatly in terms of effort, demand and maturity.

Use of Proceeds activity mapping with a variety of pragmatic approaches

Where the Use of Proceeds is known, the mapping with EU taxonomy activities relies largely on internal data, the collection of which is mostly based on internal ESG frameworks.

Determining economic activities

Once a counterparty's NFRD obligation has been approved, the next step in the process of determining the eligibility ratio is to identify the financing purposes of the individual specialized transactions. The EU taxonomy is based primarily on the NACE methodology, which allows a comparison with the economic activities covered in the annexes of the taxonomy regulation and the financed activities in a bank's book. Although the NACE methodology is the best existing systemization of economic activities, its application in the context of the EU taxonomy nevertheless reveals a few weaknesses.

The EU taxonomy includes some activities that are not (yet) included in the NACE framework, for example 4.10 'Storage of electricity'[16], 4.11 'Storage of thermal energy'[17] and 4.12 'Storage of hydrogen'[18]. Hence, these activities cannot be identified by means of NACE codes.

Other NACE codes are included in multiple activities, for example NACE D.35.11 'Production of electricity'[19], which could be mapped to a total of 12 activities[20] in the area of electricity and heat/cool (co-)generation. This many-to-many relationship also requires further (temporarily manual) mapping effort besides systemically matching. A suitable systemic solution would need to functionally go beyond a simple mapping due to the many-to-many relationships of NACE codes and EU taxonomy activities.

Internal frameworks as a bridge to the EU taxonomy

As a quick recap: Last year, 27% of the analyzed banks used their systemically available NACE codes for a first indication of their Use of Proceeds transactions, acknowledging that counterparty NACE codes and the respective financed activities would not necessarily correlate. Across the market, it could be observed that substantial work was done in FY22 on this EU taxonomy classification process step. While half of the examined banks did not specifically elaborate on this matter, the other half did provide insights on their approaches.

Across the market, a broad referencing to internal frameworks, which banks implement to balance, bridge and bundle external reporting requirements with internal strategic ambitions and policies, could be observed. Broadly speaking, these frameworks usually aim to align ESG use cases across the bank and to effectively harmonize and align the data-capture efforts. This not only sheds light on potentially green business, but also helps in tackling the EU taxonomy challenges by increasing the data availability for classification purposes.

An example of an internal framework bridging to the EU taxonomy is the Sustainable Finance Classification System (SFCS) from Banco Santander: The bank explains that specific-purpose lending with non-financial counterparties was included in its recent eligibility ratio “based on information provided by the counterparties on projects or activities to which the proceeds were applied by using the SFCS.”[21]

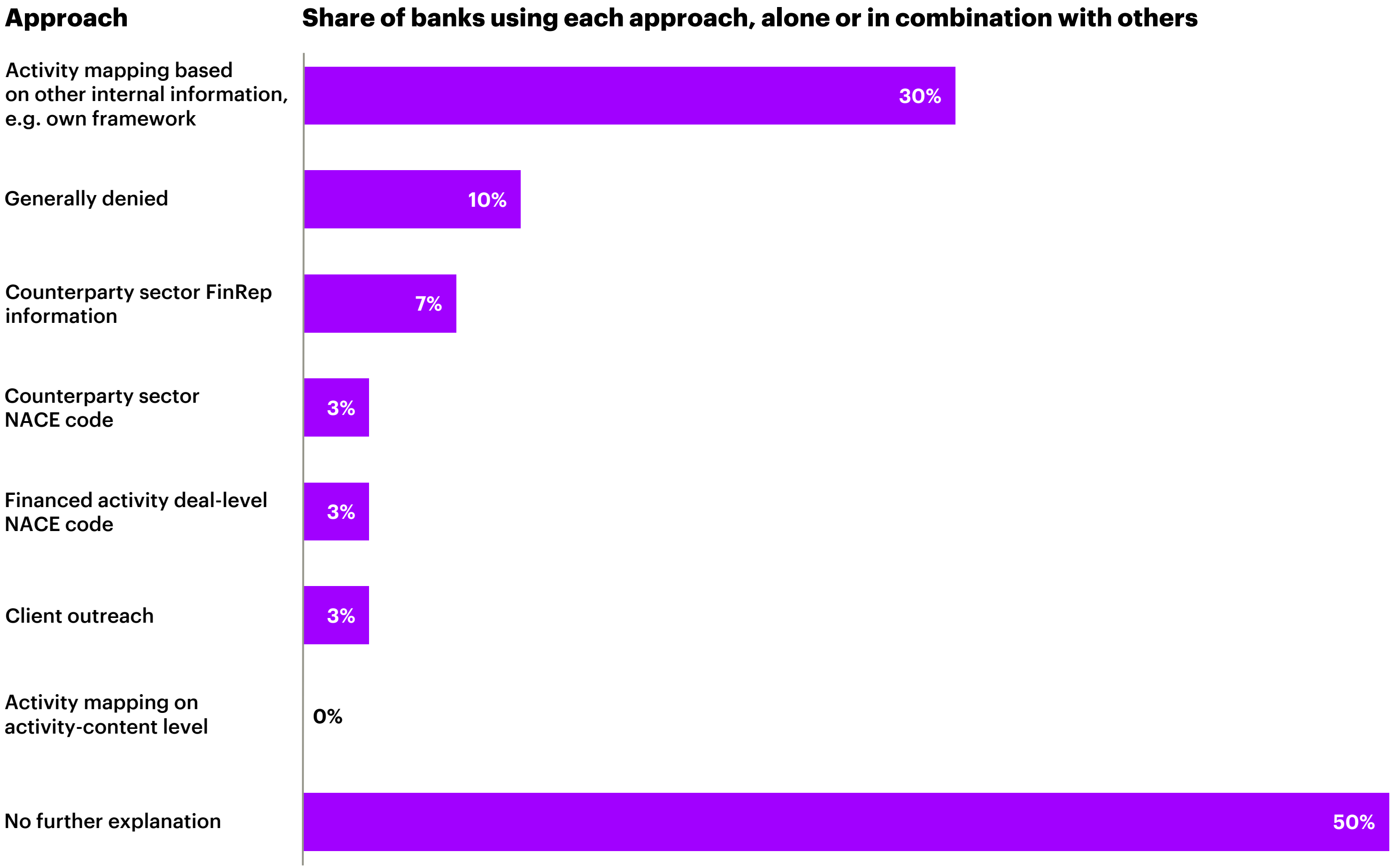
Further, outstanding statements have been seen at UniCredit Group, which explicitly noted it had already included client outreach in its information gathering activities: “In accordance with taxonomic criteria, in order to identify green transactions, starting with an analysis of the delegated acts of the EU commission, a survey was designed to be submitted at loan level.”[22]

A view on materiality

While a clear development from the approaches observed last year can be seen across the market, data gaps remain the greatest obstacle. This primarily applies to existing deals, as banks prepare for the future by changing their client data requirements—a step greatly facilitated by changes in the regulatory environment—as well as their data collection and storage processes. We can therefore expect data availability and quality to improve in the coming years. Still, the attainment of transparency on an activity level when doing business with corporate counterparties is likely to remain limited, overall.

The rationale for this lies in the banks' respective business models and is understandable: When deals with dedicated Uses of Proceeds make up an insignificant part of the bank's business, and when increasing the transparency of 'where the money flows' is no priority at all, the overall materiality of Use of Proceeds assessments under the EU taxonomy framework will remain limited.

Figure 8: Overview of the selected approaches for identifying and matching EU taxonomy activities at the level of individual transactions with a defined Use of Proceeds



Approaches have only been included in this analysis when they have been explictly mentioned in the banks' reports.
Sources: EU taxonomy reports of the analyzed banks.

The way forward

Banks can take advantage of the implementation phase and their initial experiences of reporting to anchor, for the long term, the constantly evolving EU taxonomy and upcoming regulations within their strategic roadmaps and (IT-)operating models.

Increasing clarity on the long EU taxonomy journey ahead

The importance and relevance of the EU taxonomy in helping financial institutions tackle the substantial challenges ahead is clear. Institutions have benefitted from the less rigorous demands of the introductory phase of this staged regulatory roll-out; this will change when the Taxonomy Regulation requires, for the first time and limited to the Climate Delegated Act, a full set of disclosures for FY23.

As the overall European sustainability regulatory framework evolves at a rapid pace, understanding the interconnectedness and dependencies between the EU taxonomy and all its intertwined frameworks has become a major challenge for banks. For example, the revision of the NFRD into the CSDR (including national implementation) will bring additional acceleration to the reporting requirements of Art. 8.

All in all, this illustrates once again that the regulatory requirements in the area of sustainability should absolutely be understood as a moving target that demands an agile approach. The implementation approach needs to be swift, but at the same time it needs to be flexible enough to adapt to this fluid regulatory environment. Short- and long-term considerations should be frequently updated. Future use cases should be evaluated and existing ones updated. The alignment of data requirements should be pursued carefully to reduce complexity but should, at the same time, still accommodate the individual requirements of both frameworks and internal stakeholders.

Data management and efficient, tech-based processes as fundamental enablers

The data requirements of EU taxonomy reporting and also, more generally, of the quantification of ESG ambitions, are characterized particularly by the necessary granularity. This imposes very special demands on data management, which must now be established with speed and precision in order to satisfy the massive hunger which sustainability regulation has for data. Three core aspects in particular must be taken into account.

Firstly, the data management must be able to adapt with great speed, because the regulatory target picture and the data structure that depends on it must, as previously mentioned, be understood as a moving target. The emerging data budget must have the ability to react swiftly, consistently and from the outset to changes in regulation, enabling timely modification of the data architecture and data model.

Secondly, financial institutions must create sufficient capacity to process the large volumes of data—which are expected to increase along with the reporting obligations and individual use cases. In addition, because the structure of the data is new, institutions will need to ensure that the processing of the new data volumes is both flexible and scalable.

Thirdly, a huge increase in flexibility is required in the way data is connected. Depending on the completeness and availability of the required data, the data household must ensure stringent standardization and harmonization. This will allow the new data to be linked in a meaningful way, and also the added value of integrating own, client-side and externally purchased data to be realized. However, from the first two years of implementing the EU taxonomy, we have learned that the materiality of Use of Proceeds exposures is rather low at most banks, due to their business models and the kind of deals they do. Hence, the EU taxonomy deal level assessments might not be the key drivers of ESG data in the short term. We expect the level of transparency of deal-level granularity to vary according to each bank's individual ambition to strategically steer an increasing share of its deals into a Use of Proceeds route, as well as its ability to bring that change to the market.

Key learnings from the second reports

The fastest possible improvement in the quality of the mandatory KPI disclosure can be achieved through a massive improvement in the quality and coverage of the sourced counterparty-level data, as we observe a very low materiality across the market for Use of Proceeds transactions. Data vendors are increasing their data collection capabilities at a fast pace, so that acquired sets of counterparty data have a constantly evolving counterparty coverage and accuracy.

However, given the evolving regulatory landscape, there will be a gap between acquired and required data for banks. Especially in terms of SME clients, most data vendors will probably have a low coverage for years to come. This is due, on the one hand, to the sheer number of companies in the European market, and on the other to the longstanding implementation timelines of the CSRD (FY26 as first report for SMEs, with the option to opt out until FY28[23]).

Hence, for EU taxonomy reporting purposes, robust client outreach processes will be required for the following two key use cases:

1. Collection of counterparty-level data (eligibility and alignment ratios for Turnover, CapEx, OpEx), which might be tackled with acquired data in a better manner year on year.
2. Collection of deal-level data (compliance of specific economic activity with the TSC as set out in the EU taxonomy) which can only be sourced from the client, highlights a high degree of dependency for banks.

This requires finding the right balance between standardization and individual cooperation models which might be developed into ecosystems over time, with transparent and robust data quality management as the critical aspect.

Standalone EU taxonomy KPIs still have limited usefulness as a steering parameter

The informative value of the current ratios has potential for improvement; this was again acknowledged by most of the banks in our study in their qualitative disclosures. It becomes clear that the eligibility ratio, and thus also the GAR in perspective, are not suitable as (central) sustainability control parameters in their current form, as they have a rather narrow scope which is biased against some business models (SME exposure, investment banking).

Therefore, most banks stated that they consider and apply the EU taxonomy as a tool in their sustainability management toolkit, but currently not as a leading framework. As many as 64% of the surveyed banks referred to other internal and/or external ESG frameworks, which help them to better reflect their green share of business. This shows that even though the EU regulators are working towards standardization and harmonization of sustainability subject matters, every bank builds its individual bridges to cope with the complex regulatory landscape.

However, many banks do acknowledge that the Technical Screening Criteria defined by the EU taxonomy have been transferred into their own ‘green’ or ‘sustainable’ policies/ frameworks and are frequently used to design sustainable products—especially in the area of mortgages, but also for deals with corporate counterparties, for example in the renewable energy sector. However, if the EU taxonomy KPI is integrated with other (regulatory) ESG use cases such as financed emissions, physical and transitional risks and other internal/external frameworks, it still helps to steer portfolios on a more granular level.

The current design of the EU taxonomy tends to incentivize more earmarked business with large corporates. Optimally, green business in greenhouse-gas-intensive sectors would be preferred as this would be the most meaningful contribution to a sustainable transformation of the European economy, which we do desperately need to accelerate. However, given the exclusion of SMEs, using the EU taxonomy as a central steering parameter would currently not be sufficient. It is clear that the taxonomy KPIs will only enjoy a high level of credibility across the world if they adequately and realistically reflect a bank’s green exposure, which they currently do not due to the limitations described above.

A glimpse into the future

The EU taxonomy defines what is dark green and what is not, while also partly considering enabling and transitional activities. This binary approach (green or not green) currently specifically excludes yellow (transformable) and brown (non-transformable) assets as not eligible. Hence, it represents a credible set of criteria and thresholds on which, for example, 'dark green products' can be built, as already observed in the market.

In view of the overriding goal of the sustainable finance regulation—the transformation of the real economy, which is to be financed by banks—this information is also part of the complete picture of every bank's transformational performance.

In the interests of transparency, it would make sense for banks to at least temporarily provide additional information with the help of their own methods, which do a better job of reflecting their own business model and impact than the EU taxonomy currently does.

A notable example of this is the tracking of the 'sustainable financing and investment volumes' of Deutsche Bank, which defines a target of €500 bn accumulated sustainable volumes between 2020 and 2025 with corresponding interim targets.[24]

This target tracking is based on the bank's own Sustainable Finance Framework, which aims "to fully embed the technical screening criteria developed by the EU into [the bank's] internal classification process"[25].

With all these additional and contextualizing frameworks, it is essential to ensure that the targets and metrics are ambitious and scientifically sound to mitigate green- or transition-washing and to facilitate and accelerate the sustainable transition of our economies.

References

1 Cf. Art. 19a, 29a of Non-Financial Reporting Directive 2013/34/EU (NFRD).

2 The NFRD is replaced by the CSRD, starting from the reporting season for FY24 in 2025.

3 In addition, qualitative information has to be provided in accordance with Annex XI to the Disclosures Delegated Act in Art. 8 of the Taxonomy Regulation.

4 Cf. Art. 10 (3, 3a, 3b, 3c) of the Disclosures Delegated Act to Art. 8 (EU)2020/852 Taxonomy Regulation.

5 Cf. for Banco Santander, Annual Report 2022, p. 100.

6 Cf. for Société Générale 2023 Universal Registration Document (societegenerale.com), p. 324; for Groupe BPCE https://groupebpce.com/en/content/download/33307/file/BPCE2022_URD_EN_BAT_MEL1_23-03-31.pdf, p. 118.

7 Cf. Carriages preview | Legislative Train Schedule (europa.eu).

8 Since the EU Commission has recognised the problem of time gaps, the regulatory system addresses this for the reporting of the GAR. Hence, non-financial undertakings are already obliged to report their taxonomy alignment for the FY22. These KPIs can therefore be relied upon by the banks when they publish the GAR for the first time for the FY23.

9 Cf. Question 12, https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/sustainable-finance-taxonomy-article-8-report-eligible-activities-assets-faq_en.pdf, p. 8 f.

10 sustainability-report-2022.pdf (danskebank.com), p. 53.

11 https://www.labanquepostale.com/content/dam/lbp/documents/institutionnel/en/corporate-publications/2023/BQP2022_URD_EN_MELv2.pdf, p. 553.

12 Cf. https://www.ing.com/web/file?uuid=7b77643e-8ef1-49c0-b470-7af37fcf43c2&owner=b03bc017-e0db-4b5d-abbf-003b12934429&contentid=59254, p. 173.

13 Cf. Nachhaltigkeitsbericht_BSK_2022.pdf (berliner-sparkasse.de), p. 24 f.

14 https://investor-relations.db.com/files/documents/annual-reports/2023/Non-Financial-Report-2022.pdf, p. 20.

15 Cf. Carriages preview | Legislative Train Schedule (europa.eu).

16 Cf. https://ec.europa.eu/finance/docs/level-2-measures/taxonomy-regulation-delegated-act-2021-2800-annex-1_en.pdf, p. 90 f.

17 Cf. ec.europa.eu/finance/docs/level-2-measures/taxonomy-regulation-delegated-act-2021-2800-annex-1_en.pdf, p. 91 f.

18 Cf. ec.europa.eu/finance/docs/level-2-measures/taxonomy-regulation-delegated-act-2021-2800-annex-1_en.pdf, p. 93 f.

19 Cf. 35.11 – Production of electricity (nacev2.com).

20 In due briefness: 4.1-4.8 and 4.17- 4.20; cf. ec.europa.eu/finance/docs/level-2-measures/taxonomy-regulation-delegated-act-2021-2800-annex-1_en.pdf.

21 Cf. Santander, Annual Report 2022, p. 99; Further elaborations on the SFCS from p. 101.

22 Cf. UC_INTEGRATO_2022_ENG.pdf (unicreditgroup.eu), p. 143.

23 Cf. Art. 5c of Corporate Sustainability Reporting Directive (EU) 2022/2464.

24 Cf. https://investor-relations.db.com/files/documents/annual-reports/2023/Non-Financial-Report-2022.pdf, p. 17.

25 Cf. Brief (db.com), p. 2.

Sample banks and their reports

The selection of banks for this sample was based on total assets in a European comparison for the purpose of representativeness. For the German banks in particular, different business models were included.

- Aareal Bank
- ABN Amro
- BBVA
- BNP Paribas
- Banco Santander
- Berliner Sparkasse (German)
- CaixaBank
- Commerzbank (German)
- Crédit Agricole
- Danske Bank
- DekaBank (German)
- Deutsche Apotheker- und Ärztebank (German)
- Deutsche Bank
- Deutsche Pfandbriefbank (German)
- DZ Bank
- Erste Group
- Groupe BPCE
- Hamburg Commercial Bank (German)
- ING Group
- Intesa Sanpaolo
- La Banque Postale
- Landesbank Hessen-Thüringen (German)
- LBBW
- Monte dei Paschi di Siena (Italian)
- Nordea
- Rabobank
- Société Générale
- Svenska Handelsbanken
- UBS
- UniCredit Group

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