

Testing the application of the EU Taxonomy A Case Study

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Testing the application of the EU taxonomy – A Case Study EBA Pilot Sensitivity on Climate Change Risk - Framework and contents

EBA Pilot

The **EBA pilot**¹ was the first exercise on banks run in 2020 at EU level in order to gather a preliminary estimate of the amount of **sustainable exposures** held by EU banks. It constituted a learning exercise and a first attempt to collect data based on the **EU taxonomy**.

Data scope



Non-SME corporate exposures towards non-financial obligors **domiciled in EU countries**²

Data at borrower level include information on the business sector (NACE code), risk parameters and risk weighted exposures

Analysis



Assessment of exposures in terms of:

- 'Brown' → exposed to transition risk, based on CO₂ emission and academic approaches (EBA)
- 'Green' → based on the EU Taxonomy
- Sensitivity to shocks (transition risk)

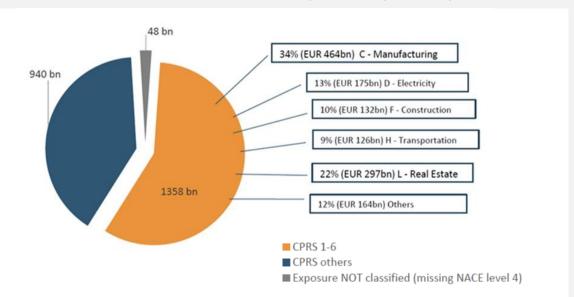
Overall 29 banks based in 10 different countries for a total of 477,000 unique obligors joined the exercise.

The total original exposure submitted amounts to EUR 2.35 trillion

Testing the application of the EU taxonomy – A Case Study EBA Pilot Sensitivity on Climate Change Risk - Exposure to transition risk results

The charts show **synthetic results**¹, related to Banks participating to the Pilot, in terms of exposure to transition risk (CPRS² approach) and *green analysis* (based on EU Taxonomy).

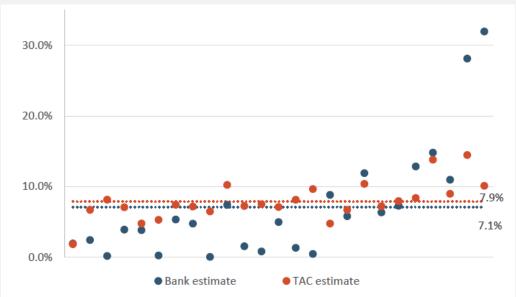
CPRS classification of EU exposures (EUR bn)



The CPRS methodology maps the standard EU classification of economic activities (i.e. the NACE) into categories that are relevant for climate transition risks. CPRS provides a small set of aggregate economic sectors with qualitative climate risk differences.

CPRS 1-6 are more sensitive to the possible introduction of transition policies aimed at reducing GHG emissions (e.g. introduction of a carbon tax, cutting fossil fuel subsidies, etc.).

Green Asset Ratio (GAR)



The green asset ratio (GAR) is constructed for each bank by dividing the green amount - available only for a subset of exposures - by the total original exposure.

Two classification approaches were considered: **bottom up**, applied by Banks and a **top down** approach, applied by EBA approximating the application of the EU taxonomy by means of 'TAC (Taxonomy alignment coefficient) estimate'3, i.e. sector specific standardized coefficients

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Within the **EBA Pilot**, banks were asked to:

- classify the exposures under the scope of the exercise according to the EU green taxonomy;
- **perform** the green classification **at obligor level** (% of total exposures);
- run this step on a best effort basis.

The application of the EU Taxonomy requires to analyze exposure with reference to the 6 environmental criteria (shown alongside).

The **key information** to be considered was the **NACE code** of the obligor/parent company. The analysis performed relied on:

- public information (no info request to the client);
- use of external info providers in order to leverage on uniform, standard KPIs, indicators;
- materiality, in terms of counterparty's contribution to the perimeter in scope;
- schematic, conservative assessment approach.



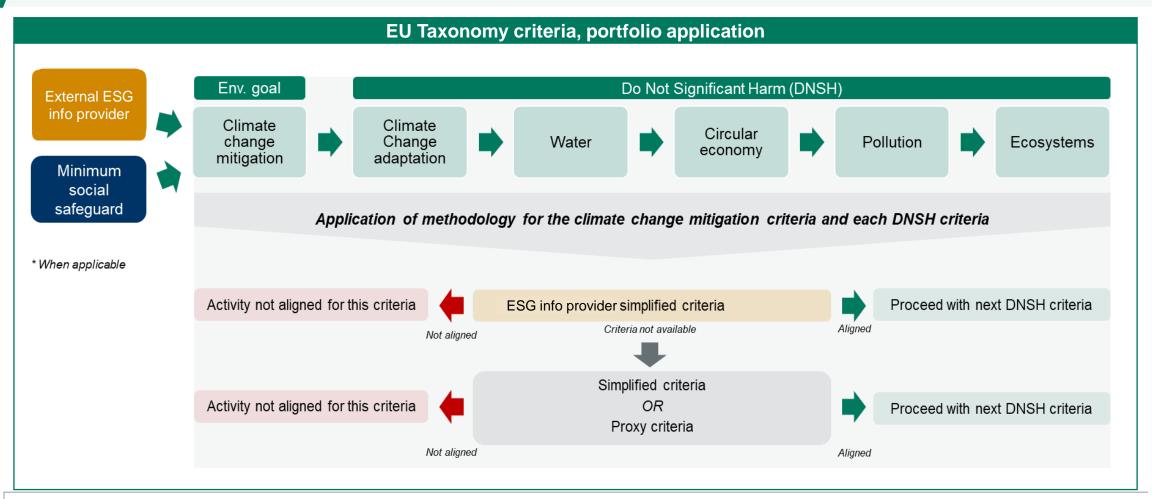
Technical screening criteria defined by the TEG



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Overall proposed approach

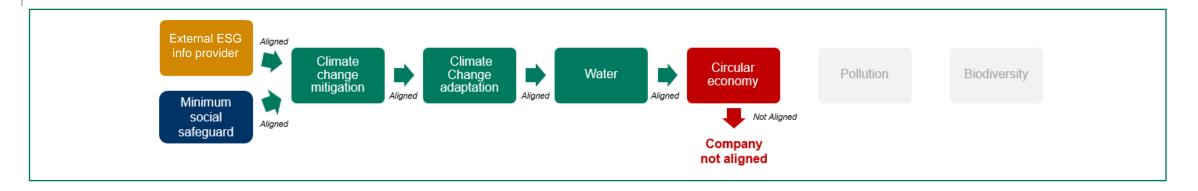
The project aimed at reviewing the **72 EU Taxonomy activities developing new screening criteria** (and related guidance notes) that Intesa Sanpaolo may **apply to its portfolio of Clients to evaluate the percentage of alignment**.



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Example of application



The output of the **EU Taxonomy Guidance Notes** is an **excel file that provides, for each Taxonomy activity and original criteria** (mitigation and DNSH), **all the available screening criteria** (ESG info provider, simplified and proxy).

An **easy-to-use tool** has been developed in order to allow Intesa to perform the analysis on its portfolio and evaluate the percentage of aligned companies.

					Minimum social safeguard		
Client	NACE Code	EU Taxonomy activity	Overall score	Preliminary Vigeo criteria		Guidance notes Minimum social safeguard	Vigeo Criteria Mitigation
Client 1		Mhawficture of ather organic basic elemicals	Company not aligned	Hale, Company scene equal to a below the sector oversign performance is the "Emilianment Childron" (ESC performance), the schildry in not considered aligned with EU Texonomy critics. See the St page of Vigoo report.	Does the Company report (sutrinsibility and consolidated reports or website) to operate in sligancest with the UN Quiding Principles on Business and Heman Rights? —> yes, the Company is considered aligned —> no, to the Company metaloxed in the OECD Oudelines complaine database OR in the —> yes, the Company is considered and aligned —> no, the Company is considered and signed	Verify the following powers: Company First State Completed reports Sexthability and consolidated reports COECO Guidelines Completed attributes (http://menguidelines.oced.org/durbburels-carchresitel) Artifolish Obligacies, and, extracerises Section Turvaritis against companying Section	NA .
				Not Available	Aligned		Not Available
Client 2		Passenger cars and commercial vehicles	Company aligned	If the Company scores equal to or below the sector average performance in the "Environment Criteria" (ESG performance), the activity is not considered aligned with EU Taxonomy criteria. See the 1st page of Vigeo report.	Does the Company report (pertainability and consolidated reports or website) to operate in alignment with the UN Guiding Principles on Business and Heman Righte? -> so, the Company is consolidated alignment of the COMPANY of the C	Varify the following courses: - Company's website - Sustainability and consolidated reports - OECD Quidelines Complaints database - OECD Quidelines Complaints database - OECD Widelines Control (Complaints database) - With Obbot OBardece(Inne, datereceived) - Plaincos and Human Rights Resource. Center database - section "Lowerita against companies" - More of the Companies of the	NA
				Aligned	Aligned		Not Available
Client 3		intrastructure for low carbon transport (find transport)	Company not aligned	If the Company scores equal to or bullow the sector average performance in the "Ewironment Criteria" (ESG performance), the schwity is not considered aligned with EU Taxonomy criteria. See the 1st page of Vigoo report.	Does the Company report (outsinsbilly and consolidated reports or website) to operate in alignment with the UR Guiding Principles on Business and Human Righte? —> yee, the Company is considered aligned —> so, the Company metaloned in the OCEO Guidelines complaine database OR in the Business and Human Righter Resource Contra - Laveralto against companies — database? —> so, the Company's considered aligned	Varify the following sources: Company's recibility and consolidated reports - Sestalnishility and consolidated reports - OECD Guideline Completed drabbase/services (http://marquidelines.oecd.org/drabbase/services/marquidelines.oecd.org/drabbase/services/marquidelines.oecd.org/drabbase/services/marquidelin	NA
				Aligned	Aligned		Not Available

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Testing the application of the EU taxonomy – a case study Closing remarks

This 'pilot application' of the EU Taxonomy, was a **useful learning exercise** in order to get ready for more ambitious challenges in terms of:



public disclosure: requirements to disclose information (KPIs) according to the EU Taxonomy are being introduced from 2021 CNFS, with further development in the coming years (e.g. Pillar 3);



scenario analysis, stress test: climate change stress test to be performed in 2022;



integration of relevant data within bank's relevant processes.



Filling ESG data gaps and improvement of their reliance and accuracy is fundamental in order to correctly address decision making processes



Standard metrics, reliable and comprehensive data sources are essential for all companies in scope, not only for large corporate

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Thank you

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