17 September 2020

Survey: Pillar 3 disclosures on ESG risks under Article 449a CRR

Notes / instructions

This survey has been prepared to support the EBA's work on the mandate included in Article 434a of Regulation (EU) No 575/2013 (CRR), which mandates the EBA to develop implementing technical standards (ITS) on the disclosure of prudential information on ESG risks by large institutions, as specified in Article 449a CRR.

The objective of the survey is to collect information on institutions' current practices regarding disclosure of information on ESG risks, on the classifications and metrics currently in use, and on their view regarding how Pillar 3 disclosures should be implemented and interact with other disclosure frameworks.

The survey is addressed to institutions that will be required to disclose prudential information on ESG risks according Article 449a CRR. The participation to the survey is voluntary.

The answers to the survey should be provided by credit institutions (or by relevant third parties on behalf of institutions) with an institution-specific focus and information. Answers can be provided on a best-effort basis, but the EBA expects that participants answers as many questions as possible in a well-founded manner. **The survey should be answered by means of the online tool that can be accessed under the following link**:

Link to the tool

This document serves as a reference that supplements the online survey. The document includes explanatory notes and instructions that will not be included in the online tool. At their discretion, competent authorities may translate this reference document into other EU languages to help institutions with preparing their answers. **The survey should be answered via the online tool and in English language.**

The answers to the survey may be used by the EBA for the performance of various tasks in the field of sustainable finance. Primarily, the feedback provided to the survey will be used to inform and support the development of the ITS on Pillar 3 disclosures on ESG risks. It will also help the EBA understand the type of actions that institutions are putting in place following the policy messages and expectations on disclosures included in the EBA Action Plan on Sustainable Finance[1] published in December 2019, including the disclosure of a green asset ratio.

The EBA reserves the right to follow-up on the answers to the survey through the contact points indicated in the survey[2].

The survey is structured into the following sections:

- General questions on the current status of ESG disclosure (Part 1): in this part of the survey, the questions are set independently for 'environmental', 'social' and 'governance', and especially for the 'environmental' it sets questions in relation to several initiatives such as the EBA Action plan on sustainable finance, EU Taxonomy and Commission non-binding guidelines on reporting of climate related information.

- Questions on the interaction between Pillar 3 disclosure and policy initiatives (Part 2): the questions in this part focus on the interaction between institutions' current practices with other policy initiatives such as non-financial reporting directive (NFRD), Commission's non-binding guidelines on non-financial information, including the supplement on climate-related reporting, and others.

- Forward-looking questions regarding the implementation of upcoming disclosure requirements as per Article 449a of the CRR (Part 3): the questions set out in this part focus exclusively on climate change, including transition and physical risks, and cover aspects on exposure classification, metrics and data availability.

Who is answering?

Institution to which the answers refer to		
Entity name	BNP PARIBAS GROUP	
Entity code (preferably LEI)	R0MUWSFPU8MPRO8K5P83	
Entity size: Is the institution a large institution (where known to the institution based on points (145) and (146) of Article 4 (1) CRR)	Yes	
Total assets as of 31 December 2019 (in thousand EUR)	2,164,713,000	
	Name	ROYERE Catherine

[1] https://eba.europa.eu/sites/default/documents/files/document_library//EBA%20Action%20plan%20on%20sustainable%20finance.pdf

[2] See specific privacy notice.

Main contact point at the institution (for a possible follow up)	Position	Group Prudential Affairs
	Telephone	33 6 65 88 01 34
	Email	Catherine.royere@bnpparibas.com

Third party answering on behalf of the institutions, where relevant (organisation and main contact point)	
Organisation	
Name	
Position	
Telephone	
Email	

1. General questions on the current status of ESG disclosures

Question 1.a: To what extent do you agree or disagree with the following statements about the current status of your disclosures?

	1	2	3	4	5	Don't Know/ NA
The institution is including qualitative information on ESG risks in the Pillar 3 reports				x		
The institution is including quantitative information on ESG risks in the Pillar 3 reports		x				
The information included in the Pillar 3 report is aligned with the key policy messages and expectations on disclosures included in the EBA action plan on sustainable finance (section 5.2 of the action plan)		x				
The institution is not yet including information in the Pillar 3 reports but the information included in their non-financial report could provide a starting point for the future Pillar 3 disclosures			x			
The institution is disclosing information from a double materiality perspective, as defined in the non-financial					X	

reporting Directive 2014/95/EU[3]						
The institution is not yet including information in the Pillar 3 reports nor in their non-financial reporting	x					

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Question 1.b: Please specify the disclosure reference date of the Pillar 3 report in which the institution started disclosing information on ESG risks or is planning to start including this type of information. Similar information to be provided regarding the non-financial report.

The Group started to include ESG information in its Pillar 3 at 31 December 2016 as an emerging risk, reinforced at 31 December 2019 Paragraph 7.4 (Pages 287-288) entitled 'The BNP Paribas Group could experience business disruption and losses due to climate change risks such as transition risks, physical risks or liability risks'.

It includes the following information:
-the definition of the transition risks, physical risks and liability risks
- BNP Paribas is progressively integrating the assessment of these risks into its risk management system
- the specific credit policies and the General Credit Policy have been enhanced since 2012 and 2014, respectively, with the addition of relevant clauses in terms of social and environmental responsibility
- sector-specific policies and policies excluding certain environmental, social and governance (ESG) sectors from financing have also been put in place
- new commitments to reduce its exposure to thermal coal to zero by 2030 in the European Union and by 2040 for the rest of the world

Risks and Capital Adequacy - Pillar 3 Report 2019 is the Chapter 5 of Universal Registration Document:
https://invest.bnpparibas.com/sites/default/files/documents/bnp2019_urd_en_20_03_13.pdf

In its non-financial report, the first disclosure of ESG information was 31 December 2001

1.1 Questions on the current status of ESG disclosures – environmental risks, including climate-related risks and actions taken to meet supervisory expectations in the EBA Action Plan on Sustainable Finance

Question 2.a: If the institution is disclosing information on ESG risks (e.g. in Pillar 3 reports, annual reports, non-financial reports, sustainability reports etc.), what is the status of your disclosure of information related to environmental risks?

	1	2	3	4	Don't Know/ NA
The institution is disclosing qualitative information on environmental risks, including climate-related risks, in its Pillar 3 report			x		

The institution is disclosing qualitative information on environmental risks (including climate-related risks) in their non-financial report				x	
The institution is disclosing qualitative information on environmental risks (including climate-related risks) in other reports				x	
The institution is including quantitative information on environmental risks (including climate-related risks) in their Pillar 3 report	x				

[3] *OJ L 330, 15.11.2014, p. 1–9*

The institution is including quantitative information on environmental risks (including climate-related risks) in their non-financial report				x	
The institution is including quantitative information on environmental risks (including climate-related risks) in other reports				x	
If the institution is disclosing information on environmental risks (including climate-related risks), it is following a classification aligned with the environmental objectives included in the EU Taxonomy regulation[4]	X				
The institution is including information on environmental risks with a focus on climate change				x	
The institution is including information not only on climate-related but also on other environmental risks			x		

(1= not at all, 2= to some extent but not much, 3= to a reasonable extent, 4= to a great extent)

Question 2.b: Please explain, when relevant, the institution's plans to disclose environmental risks in line with the objectives included in the EU taxonomy.

Question 3.a: If the institution is disclosing information on climate-related risks (e.g. in Pillar 3 reports, annual reports, non-financial reports, sustainability reports etc.), what is the status of your disclosures?

	1	2	3	4	Don't Know/ NA
The institution is including information on transition risk[5] in their Pillar 3 report			x		
The institution is including information on transition risk[6] in their non-financial report				x	
The institution is including information on transition risk[7] in other reports				x	

[4] Regulation (EU) 2020/852

[5] Transition risk and physical risk are defined in the Commission Guidelines on climate-related information, paragraph 2.3

[6] Transition risk and physical risk are defined in the Commission Guidelines on climate-related information, paragraph 2.3

[7] Transition risk and physical risk are defined in the Commission Guidelines on climate-related information, paragraph 2.3

The institution is including information on physical risk[8] in their Pillar 3 report			x		
The institution is including information on physical risk[9] in their non-financial report				x	
The institution is including information on physical risk[10] in other reports				x	
In case that the institution is including information on transition risk, the institution's information is aligned with the definition included in the Commission non-binding guidelines on reporting of climate related information				x	
In case that the institution is including information on physical risk, the institution's information is aligned with the definition included in the Commission non-binding guidelines on reporting of climate related information				x	

(1= not at all, 2= to some extent but not much, 3= to a reasonable extent, 4= to a great extent)

Question 4.b: Please specify what definitions the institution is applying, if other than those in the Commission non-binding guidelines. **n.a**

BNPP applies the same definitions in its December 2019 Pillar 3 report as in the European Commission Guidelines

Paragraph 7.4 of the 2019 Pillar 3 report defines the transition, physical and liability risks (cf .Question 1.b) as the following. "There are two main types of risks related to climate change: (i) transition risks, which result from changes in the behavior of economic and financial actors in response to the implementation of energy policies or technological changes; (ii) physical risks, which result from the direct impact of climate change on people and property through extreme weather events or long-term risks such as rising water levels or increasing temperatures. In addition, liability risks may arise from both categories of risk. They correspond to the damages that a legal entity would have to pay if it were found to be responsible for global warming."

Risks and Capital Adequacy - Pillar 3 Report 2019 is the Chapter 5 of Universal Registration Document:
https://invest.bnpparibas.com/sites/default/files/documents/bnp2019_urd_en_20_03_13.pdf

Question 5.a: If the institution is disclosing qualitative information on climate-related and/or other environmental risks, please specify what type of information is being disclosed.

	1	2	3	4	Don't Know/ NA
The institution is disclosing information on business strategy and business model				x	

The institution is disclosing information on governance				X	
The institution is disclosing information on risk management				X	

[8] Transition risk and physical risk are defined in the Commission Guidelines on climate-related information, paragraph 2.3

[9] Transition risk and physical risk are defined in the Commission Guidelines on climate-related information, paragraph 2.3

[10] Transition risk and physical risk are defined in the Commission Guidelines on climate-related information, paragraph 2.3

The institution is disclosing other information				X	

(1= not at all, 2= to some extent but not much, 3= to a reasonable extent, 4= to a great extent)

Question 4.b: Please specify where the institution is disclosing this information (Pillar 3 report, non-financial report…) and provide the link to the report and examples of such disclosures. If the institution is disclosing other information, please specify what type of information is being disclosed.

The Group is disclosing detailed information in its TFCD **(Task Force Climate-related Financial Disclosures)** report: https://group.bnpparibas/en/news/bnp-paribas-publishes-tcfd-report-step-fight-climate-change.

- The Business strategy is detailed p.18-28 (summary p. 28) and p. 41-46 (indicators used)
- The Governance is described p. 8-13 (Implication of the Board, Committees in charge, etc.)
- The Risk management framework is described p. 38-39 (first and second lines of defence, CSR team provided advices on 2 340 transactions, etc.)
- Chapter 4 gathers metrics and targets related to climate: cf. details below

The dashboard comprises CSR metrics which are monitored at the highest level of the Group. It is published yearly in the Group's UDR. Two of the dashboard metrics concern energy and climate:
• financing for renewable energies (in €bn); in 2019, this amount was up to € 15.9 billion, up from € 7.2 billion in 2015, i.e. an increase by 120 % in four years;
• greenhouse gas emissions in the Group's operational scope (direct emissions, indirect emissions related to energy consumption and business travel) (in kgCO2e/FTE); in 2019, these emissions amounted to 2.32 teqCO2/FTE, down from 2.89 teqCO2/FTE, i.e. a decrease by 20 % in four years.
Both metrics are improving and their targets are frequently raised to keep them on the right track

At the same time, BNP Paribas measures and publishes the electricity and energy mixes financed by the Group and their carbon intensity. For the purpose of measuring its indirect emissions (Scope 3), BNP Paribas has since 2014 disclosed the distribution of the primary energy mixes (oil, gas, coal) and secondary energy mixes (electricity generation) financed by the Group. It has also undertaken to adjust them in line with the SDS (compatible with keeping global warming under 2°C) defined by the International Energy Agency (IEA).

Scope 1 : Direct emissions –(Emissions generated by use of gas and fuel oil in Group buildings)
Scope 2 : Indirect emissions associated with energy purchases (Emissions generated by use of electricity in Group buildings..)
Scope 3 : Indirect emissions associated with business travel
Scope 3 : Loan book – Emissions financed by the Group : BNP Paribas does not calculate the total amount of emissions financed by the Group (via its lending activities), but instead takes a sector approach, for several reasons:
- uncertainty in the methodologies
- not a relevant metric for the purpose of managing the loan book as a whole.

The objective for BNP Paribas is to continue financing all sectors of the economy (aside from certain duly identified sectors for which it has been determined that a transition compatible with the Paris Agreement goals is not possible), while working within each sector to encourage its clients to make a transition compatible with the Paris Agreement.

BNPP is also disclosing in the TCFD report, the bank's Targets related to climate:
- Alignment of loan book with Paris Agreement goal (methodology published in September 2020)
- Amount allocated to renewable energy finance
-Carbon intensity per kWh financed by the Group-Reduction of emissions per employee

The link for chapter 7 A COMMITTED BANK: INFORMATION CONCERNING THE ECONOMIC, SOCIAL, CIVIC AND ENVIRONMENTAL RESPONSIBILITY OF BNP PARIBAS in the Universal Registration Document is https://invest.bnpparibas.com/sites/default/files/documents/bnp2019_urd_en_20_03_13.pdf

Question 5: If the institution is disclosing quantitative information on climate change related-risks and/or other environmental risks, to what extent do you agree or disagree with the following statements?

	1	2	3	4	5	Don't know/ NA
The climate-related disclosure of the institution are aligned with the information and metrics included in the Commission non-binding guidelines on reporting of climate related information			X			
The climate-related disclosure of the institution are aligned with the information and metrics included in the EBA action plan on sustainable finance			X			
The institution is disclosing information on green asset ratios (in line with the Commission non-binding guidelines on reporting of climate related information and the EBA Action plan on sustainable finance)	X					
The institution is disclosing information on carbon related exposures (in line with the Commission non-binding guidelines on reporting of climate related information and the EBA Action plan on sustainable finance)			X			
The institution is disclosing information on scope 3 emissions		X				
The institution is disclosing information on classification of exposures in terms of level of						
exposition to transition risk			X			
The institution is disclosing information on classification of exposures in terms of level of exposition to physical risk			X			
The institution is disclosing information on principal adverse impacts.					X	

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Question 6.a: If the institution is disclosing information on green asset ratio, please specify what type of information it is disclosing.

	1	2	3	4	Don't know/ NA
The institution is disclosing qualitative information on how they plan to develop the green asset ratio[11]	X				
The institution is disclosing metrics and targets on green asset ratio in terms of estimates and ranges	X				
The institution is disclosing information on green asset ratio by portfolio for the main portfolios	X				
The institution is working towards the implementation of aggregate green asset ratio at institution level	X				
The institution's definition and disclosure of the green asset ratio is based on the EU taxonomy regulation[12]	X				

(1= not at all, 2= to some extent but not much, 3= to a reasonable extent, 4= to a great extent)

Question 6.b: Please provide any comments or explanations on how you define the green asset ratio and its components, in particular, on what you would include in the numerator and the denominator of such ratio. Please also provide your comments on how the green asset ratio could be adapted to include taxonomy-related exposures.

BNPP is working on the definition on an internal classification of the activities depending on ESG criteria in order to monitor the business developments and opportunities. However, the bank will not use this home made classification for risk management purposes.

We do not calculate any aggregated green ratio, EU Taxonomy aligned, as we do not see its usefulness.

We consider first that its **meaning for the market is very weak**. It would be a binary and static (picture at one day) ratio without forward looking information (what would be the interest of publishing a ratio of 1% or 3%?). The historic of this ratio would show indeed the past progress of the bank's strategy and the greening of its customers, but would not be of any help to forecast/ anticipate its future evolutions.

We also question the disclosure of an aggregated 'green ratio' aligned with the EU Taxonomy in terms of reputation. Only small banks specialized on the sustainable "niche" can show high green ratios. Large and traditional banks will show very low ratios, given that the **TSC thresholds have been calibrated on the 10% best technologies of the sector.** As corporates do not have 100% of their production capacities aligned on the best technologies, even those with the lowest emissions may not meet the thresholds. We would be happy to share with EBA some **case studies**, on the EU cement sector for instance.

The **'activities in transition'** included in the EU Taxonomy are not clearly isolated from the green ones nor clearly explained. Few examples are provided. From our perspective they embed a more limited transition pathway component than in banks approach. In the EU Taxonomy, we understand that activities for which the counterparty has set up transition plans at 5 years in order to meet the thresholds are 'activities in transition'. Similarly, some activities have decreasing thresholds from low thresholds today to zero in a few years. Banks, on their side, consider that 'activities are in transition' as long as the counterpart has taken publicly strong quantitative commitments to reduce its carbon emissions, even if the final outcome remain above the EU Taxonomy thresholds. Banks priority is to maximize the CO2 emissions reductions and not to increase their share of 'green' customers.

We support the current work by the European Authorities to broaden the 'activities in transition'.

EU Taxonomy only includes 68 activities and we would support the addition on new activities (shipping, air transport…). The green ratio aligned on the EU Taxonomy should hence encompass only the Taxonomy relevant activities both at the numerator and denominator.

In addition, when the few corporates meet the thresholds, the demanding DNHS criteria make them non aligned very often.

Let's complete the explanation of a very small ratio with the complexity of understanding and implementing the EU Taxonomy and the lack of public data that will lead the banks, in the doubt, not to consider some 'green' activities as aligned with the EU Taxonomy. We would be happy to share with EBA **some case studies** in that respect also.

Second, we believe **it can not be used as a monitoring/steering tool for the bank**, which is aiming to maximize the decrease of carbon emissions from its customers and aligning its credit portfolio on the Paris Accord 2 degrees scenario. What matters for a bank is to accompany its customers to decrease their carbon emissions and not to increase its share of 'green assets'. That's why the bank chose as a monitoring tool the **measure of the alignment of the credit portfolio on the Paris Accord 2 degrees** scenario. BNP Paribas pledged in 2018 with other banks to create an open source common methodology to align credit portfolios with the Paris Agreement targets, during COP24 in Katowice. This methodology based on the application of the PACTA methodology, in partnership with the 2 Degrees Investing Initiative, has been published on 21 September 2020.

The full report is available via a link at the end of the interview: https://group.bnpparibas/en/news/bnp-paribas-takes-step-commitment-contributing-paris-agreement

Alignment is not a taxonomy. A classification system, such as the EU Taxonomy, defines what is green, for product labelling and potentially disclosure Taxonomy does not say how much and at which speed green and non green activities should be developed or financed. It provides information about the quality of an activity in relation to a climate objective but does not define the volume of that activity to be developed. Alignment, however, determines how much the whole economy, and therefore the banks whole credit portfolios, should evolve in order to meet the Paris Accord scenario. Alignment methodologies points to a scientifically defined greening pathway to reach the 2 degrees scenario.

Thirdly, the bank considers that the EU Taxonomy and the Green ratio **cannot be used for risk management purposes**. The EU Taxonomy is a classification table, but not embeds risk information, such as the customer strategy commitments in terms of carbon emissions decrease or sector based risk analysis. That's why the bank is building its own expertise (top down sectoral analysis and bottom up counterparty assessment based on a matrix of salient risk factors) and exploring some external ESG risk management methodologies such as for example ACT by the French Agency ADEME and Carbon Disclosure Protocol CDP).

This is exactly what has been raised by the ECB in its answer to the consultation on the Renewed Sustainable Finance (p.9): *"Second… the Taxonomy only provides clear definitions of what is "sustainable" from a "normative" perspective– aimed at assessing the alignment of a given economic activity with defined sustainability goals – and not from a risk management perspective, which is aimed at minimising exposures to climate and environmental risks. Although these two perspectives sometimes overlap, they reflect distinct considerations …Third, the sectoral scope of the EU Taxonomy is still incomplete and should ideally be broadened to cover the activities of all relevant sectors. Finally and more fundamentally, the Taxonomy still requires granular data in order to be usable."*

When a green ratio to be defined by the European Commission for financial undertakings by the Delegated Act of Article 8 of the Taxonomy Regulation by June 2021 for disclosure purposes (and, as a reminder, not for risk management purposes and prudential purposes), it should be tailored to a scope which would avoid providing the market with misleading information. The ratio should be the proportion of:

- Volume of Eligible Financial Assets that are EU taxonomy-aligned (exposure amounts in €)
- on Total Eligible Financial Assets (in exposure amounts in €).

With Eligible Financial Assets (EFA) being defined as all asset classes for which the EU taxonomy can apply, with appropriate phasing. For example, in the medium term, relevant Eligible Financial assets would include: mortgage loans and real asset financing, other asset financing including project finance, and other corporate loans in activities covered by the EU Taxonomy, when use of proceeds is clearly allocated to Capital expenditures and/or operating and maintenance expenses. Indeed, other banking assets, (i) for which the application requires many assumptions such as general purposes corporate loans and (ii) for which the application of the taxonomy would not provide relevant information to the market, such as central banks deposits, sovereign debt, trading assets or hedging derivatives, should be excluded from the Total Eligible Financial Assets.

Not all companies publish their financial reports and not all report on their revenue by segment. In the absence of quantitative information, we need to take simplifying assumptions on activity share using expert judgement. For example, if the annual report shows that the company has most of its activities in a given activity, we currently assume that 100% of its revenues comes from this segment; if a company operates across multiple business activities as described in its public documents, in the absence of better information, we assume that its revenues are equally distributed across all the business segments. While such assumption may be acceptable in a voluntary disclosure, they become much more problematic as the disclosure becomes mandatory which could raise legal risks. Consequently, EU regulators should favour a limited scope of assets with high quality data rather than a broad scope with weak credibility of outcomes.

For the essential purpose of feasibility, we propose to limit the application of the EU taxonomy to the Eligible Financial Assets in the first step to newly originated loans (given it would be more burdensome than useful to screen booked/past transactions). In addition, as per above, implementation should be on a best effort basis for all clients for which disclosure is not mandatory (for instance non EU customers or SMEs who both will not be submitted to the Revised NFRD). When clients do not disclose relevant data, these assets should be excluded from the EFA.

We also consider that the metrics required from non-financial undertakings in the Taxonomy

Regulation such as % turnover and / or % investment (CapEx) and/or expenditures (OpEx) in the reporting year from products or services associated with activities eligible to the EU taxonomy, do not make sense for banks.

We would like to conclude this part by emphasizing the fact that so far no corporate/ bank/ or central bank is able to provide a green ratio on all its balance sheet. For instance, the ECB Eurosystem is willing to increase the share of green bonds that it holds. However, we have never seen they disclose the amount of 'sustainable' assets in their balance sheet. They disclose **the share of green bonds they hold out of the total amount of green bonds issued in the market, and not out of the total amount of the balance sheet**. Indeed, C.Lagarde, in the letter L/CL/20/231 on climate change on 25 September 2020 to the European Parliament states that "under the corporate sector purchase programme (CSPP), the Eurosystem holds close **to 20% of the CSPP-eligible green bond universe**, the proceeds of which are used to finance projects with an environmental benefit."

Question7.a: If the institution is disclosing information on brown asset ratio, please specify what

[11] Please refer to section 5.2 of the EBA action plan on sustainable finance, 'Expectations on disclosure', and in particular to paragraphs 43 and 44 of the action plan.

[12] Regulation (EU) 2020/852

type of information it is disclosing.

	1	2	3	4	Don't know/ NA
The institution is disclosing qualitative information on how they plan to develop the brown asset ratio	X				
The institution is disclosing information on brown asset ratio by portfolio for the main portfolios	X				
The institution is working towards the implementation of aggregate brown asset ratio at institution level	X				

(1= not at all, 2= to some extent but not much, 3= to a reasonable extent, 4= to a great extent)

Question 7.b: Please provide any comments or explanations on how you define the brown asset ratio and its components, in particular, on what you would include in the numerator and the denominator of such ratio.

We do not aim at calculating any brown ratio. We consider that, first, its meaning would not make sense for the market, and even worse, could be misinterpreted and stigmatize many activities instead of incentivizing them to the path of transition. It would be a static ratio without forward looking information

Second, similarly as for the green ratio, it could not be used as a monitoring/ steering tool for the bank, which is aiming to maximize the decrease of carbon emissions from its customers and aligning its credit portfolio on the Paris Accord 2 degrees scenario. Taxonomy provides information about the quality of an activity in relation to a climate objective but does not define the volume of that activity to be developed or limited.

Third, a brown classification and ratio would not be appropriate tools *per se* for risk management purposes. Banks have developed internally other tools. The risk management framework should remain home made, given the high level of expertise required in terms of sectors analysis and counterparty assessments.

Instead of implementing a brown taxonomy and brown ratio, we are monitoring the activities for which the bank has committed to some sector specific financing and investment policies as related to industries that present major ESG challenges (eg. mining, coal-fired power generation, unconventional oil & gas…). Developed in cooperation with independent experts, these policies are public and apply to all business lines and countries where we are present.

https://group.bnpparibas/en/financing-investment-policies

In order to allow a proper monitoring by French Authorities and other stakeholders of the Sustainable Finance commitments, France has decided the implementation of the French Sustainable Finance Observatory to which BNPP will contribute in terms of sustainable finance commitments and coal exposure amounts. The Sustainable Finance Observatory will gather the coal exposures by all French banks and will publish the consolidated / aggregated amount of coal exposures.

https://finance-climact.fr/actualite/observatoire-de-la-finance-durable/

Question 8: If the institution is disclosing any information on scope 3 emissions, please specify what type of information it is disclosing (qualitative information on methodologies to measure scope 3 emissions, classification of exposures, including loans and investment portfolios, information on metrics and targets…). Specify as well where the institution is disclosing it (Pillar 3 report, non-financial report…), and provide the link to the report and examples of such disclosures.

We do not currently disclose any information on scope 3 emissions because the methodologies on scope 3 for the financial sector are under development.

1.2 Questions on the status of ESG disclosures – social and governance[13] risks

Question 9: What is the status of your disclosures, regarding social risks?

	1	2	3	4	Don't know /NA
The institution is including qualitative information on social risks in their Pillar 3 report	x				

[13] Governance risk in ESG refers to the governance of the counterparties (and not the governance of the credit institution)

The institution is including quantitative information on social risks in their Pillar 3 report	x				
The institution is disclosing information on social risks by portfolio for the main portfolios	x				
The institution is not including information on social risks in their Pillar 3 report, but it is including information in their non-financial report which could provide a benchmark for future Pillar 3 disclosures				X	
The institution is including information on social risks neither in their Pillar 3 report nor in their non-financial report	x				

(1= not at all, 2= to some extent but not much, 3= to a reasonable extent, 4= to a great extent)

<u>Question 10.a</u>: If the institution is disclosing qualitative information on social risks, please specify what type of information is being disclosed.

	1	2	3	4	Don't Know/ NA
The institution is disclosing information on business strategy and business model			X		
The institution is disclosing information on governance				X	
The institution is disclosing information on risk management			X		
The institution is disclosing other information			X		

(1= not at all, 2= to some extent but not much, 3= to a reasonable extent, 4= to a great extent)

<u>Question 10.b:</u> Please specify where the institution is disclosing this information (Pillar 3 report, non-financial report…), provide the link to the report and examples of such disclosures. If the institution is disclosing 'other' information, please specify what type of information is being disclosed.

The link for chapter 7 A COMMITTED BANK: INFORMATION CONCERNING THE ECONOMIC, SOCIAL, CIVIC AND ENVIRONMENTAL RESPONSIBILITY OF BNP PARIBAS in the Universal Registration Document is <u>https://invest.bnpparibas.com/sites/default/files/documents/bnp2019_urd_en_20_03_13.pdf</u>

BNPP is also disclosing in addition to on business strategy and business model, governance and risk management on its:
-Economic responsibility (ethics), social responsibility, civic responsibility
-Commitment to enable clients to transition to low carbon economy respectful of the environment
-Commitment to reduce the environmental impact of own operations

-Support research & development on climate change and diversity
-Duty of care and Modern slavery act and human trafficking statement

Question 11: If the institution is disclosing qualitative or quantitative information on social risks, please specify what particular topics are covered (community – society, like e.g. relations with local communities, social impact of products and services etc.; employees relationships/labour standards; workplace, health and safety, diversity and gender; customer protection and product responsibility; human rights; poverty/famine; other). Please provide examples.

Diversity and inclusion, gender equality, micro finance, responsible employment management, training and mobility, human rights, philanthropy / social entrepreneurship

Question 12: If the institution is disclosing quantitative information on social risks, please specify what type of information is being disclosed (classification of exposures, targets and metrics…). Please provide examples of the metrics and other information disclosed.

Many social and governance indicators are disclosed in the Chapter 7 of the "Universal registration document and annual financial reports 2019".

Diversity & inclusion:
Tracking of the "GPS" engagement survey of the Group, internal barometer on diversity and inclusion
Number of employees recognised as disabled
Number of people recognised as disabled hired / year
Number of different nationalities present in the Group
Breakdown of Group workforce by age, gender and geographical area
Amount of money pledged to th support plan for the integration of refugees
Share of entities with more than 1000 employees that have made a commitment to implement at least one of the commitments of the ILO's Business Charter on Disability

Gender equality:
Amount of support of female entrepreneurship
Number of women affected by the "Women Entrepreneur Program"
Share of women part of the Board of directors, Executive committee, G100 (100 top executives), top 500, Senior Management Position, Talents (leaders for Tomorrow)

Ethics:
Number of countries that are "high-risk" and "in a worrying situation" in terms of human rights in which the Group operates.
Number of employees identified as between the ages of 16 and 18
Number of independent Board members
Number of sanctions imposed for sexual or psychological harassment, sexist behavious or violence at work (by dismissals, demotions, temporary suspensions, official reprimands and warnings)

Training:
Number of skills declared by employees on the 2020 HR Strategy platform
Percentage of employees trained on ethics and conduct issues
Percentage of employees having been trained at least twice over the year
Number of hours of training and trained employees, by method and content
Staff rate of employee directly contributing to the promotion of human rights who have undergone dedicated training
Staff rate of employee who completed the training “The competition law and you”

Staff rate of employee who followed the training “MiFID II Awareness”
Staff rate of employee who followed the training “Know Your Data”

Human capital management:
Percentage of the workforce that has been entitled to take at least 14 weeks of paid maternity leave
Percentage of the workforce that has been entitled to take at least 6 days of paid paternity leave
Number of employees that work in Flex Office and remotely on a regular basis
Number of workplace accidents
Rate of absenteeism by country
Number of positions published and jobs filled internally
Number of collective agreements signed across the Group

Societal impact:
Support (financing, investments on behalf of the bank and third parties) to associations and Social and Solidarity Economy enterprises
Number of start-up that have been supported by the BNP Paribas innovation hubs in France
Number of employees that came together to talk about topics as varied as professional equality, sexual orientation, inter-generational harmony, parenting, origins, disability, inter-faith dialogue and veterans
Number of intrapreneurship projects by country
Number of employees and hours of involvement in solidarity initiatives for the civil society thanks to #1MillionHours2Help
Hours of skill-based volunteering and solidarity actions for the civil society
Number of young people trained on how to better manage their budget
Amount of money in the philanthropy budget and breakdown in : solidarity, including support for refugees; the arts; the environment
Number of beneficiaries of products and services encouraging the access and responsible use of banking products / financial inclusion
Amount of actions from the Group contributing to equality of opportunities

Microfinance:
Amount of financing per category and number of MicroFinance institutions financed by country and year

Client satisfaction:
Tracking of the clients' satisfaction thanks to the Client's Interests Protection and Net Promoter Score principles

Question 13: To what extent do you agree or disagree with the following statements about the status of your disclosures, regarding governance[14] risks disclosures?

	1	2	3	4	Don’t know /NA
The institution is including qualitative information on governance risks in their Pillar 3 report	X				
The institution is including quantitative information on governance risks in their Pillar 3 report	X				
The institution is including information on AML related risks in their Pillar 3 report		X			

The institution is including information on conduct related risks in their Pillar 3 report	X				
The institution is not including information on governance risks in their Pillar 3 report, but it is including information in their non-financial report which could provide a benchmark for future Pillar 3 disclosures				X	
The institution is disclosing information on governance risks by portfolio for the main portfolios	X				
The institution is not including information on governance risks in their Pillar 3 report nor in their non-financial report	X				

(1= not at all, 2= to some extent but not much, 3= to a reasonable extent, 4= to a great extent)

14 Governance risk in ESG refers to the governance of the counterparties (and not the governance of the credit institution).

Question 14.a: If the institution is disclosing qualitative information on governance risks, please specify what type of information is being disclosed.

	1	2	3	4	Don't Know/ NA
The institution is disclosing information on business strategy and business model				x	
The institution is disclosing information on governance				x	
The institution is disclosing information on risk management				x	
The institution is disclosing other information				X	

(1= not at all, 2= to some extent but not much, 3= to a reasonable extent, 4= to a great extent)

Question 14.b: Please specify where the institution is disclosing this information (Pillar 3 report, non-financial report…), provide the link to the report and examples of such disclosures. If the institution is disclosing 'other' information, please specify what type of information is being disclosed.

In the TCFD report, Chapter I is fully dedicated to governance of the climate related risks.
BNP PARIBAS' GOVERNANCE AROUND CLIMATE-RELATED RISKS AND OPPORTUNITIES:
A. The Board of directors supervises climate-related risks and opportunities
B. Management is responsible for assessing and managing climate-related risks and Opportunities.
The TCFD report, in chapter II, not only covers strategy and risks, but also identifies the short, medium and long term opportunities related to the energy transition and carbon requirements.

In the URD, Chapter II is covering the CORPORATE GOVERNANCE AND INTERNAL CONTROL and Chapter 7 also covers the CSR organisation.

Question 15: If the institution is disclosing quantitative information on governance risks, please specify what type of information is being disclosed (classification of exposures, targets and metrics…). Please provide examples of the metrics and other information disclosed.

Number of independent members of the board (p.47 URD)

Question 16: If the institution is disclosing information on AML related risks, please specify what type of information is being disclosed.

The Group discloses information on its AML processes and trainings provided to employees on AML.

Question 17: If the institution is disclosing information on conduct related risks, please specify what type of information is being disclosed.

2. Questions on interaction of Pillar 3 disclosures with other ESG disclosures of institutions and with other policy initiatives in the EU

Institutions are asked to disclose information on ESG issues under the NFRD, under the Commission non-binding guidelines on non-financial information (including the supplement on climate-related reporting), under Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector and the supplementing Joint Committee of the three ESAs draft RTS, with regards to financial products' pre-contractual, website and periodic disclosures and under the future taxonomy regulation. It is important to understand the level of interaction of Pillar 3 disclosures with other ESG disclosures by the institutions in order to achieve consistency, build when necessary on common definitions and classifications, and avoid overlaps.

Question 18.a: How should the Pillar 3 information interact with these frameworks? Please indicate to what extent you agree or disagree with the following statements.

	1	2	3	4	5	Don't know/ NA
Information on ESG risks to be disclosed in Pillar 3 reports is complementary with the non-financial reporting information under NFRD and Commission non-binding guidelines, with some information that could be common	X					
If information on ESG risks to be disclosed in Pillar 3 reports is complementary with the non-financial reporting information under NFRD and Commission non-binding guidelines, it should also follow the double materiality perspective that applies in the latter regulatory products					X	
Information on ESG risks to be disclosed in Pillar 3 reports is complementary with the information that institutions will have to disclose following Article 8 of the taxonomy regulation, with some information	X					

that could be common[15]						
Information on ESG risks to be disclosed in Pillar 3 reports is complementary with the information that institutions will have to disclose under Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector and the supplementing draft ESAs, RTS on financial products' pre-contractual, website and periodic disclosures	X					
Information on ESG risks disclosed in different reports should include some common metrics, and quantitative and qualitative disclosures specific to the objectives of each report	X					
There is a need for coordination in the policy work on the different topics, building on common definitions and classifications and with specificities for each piece of regulation depending on the objectives					X	

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Question 18.b: Please provide any comments or explanations to justify your answers to Question 18.a, on the interactions of Pillar 3 disclosures with the other regulatory products mentioned in the question or with any other products or statutory disclosures, and on potential overlaps of information.

In order to avoid overlaps and confusion for market participants, the Pillar 3 requirement should avoid to replicate any disclosure already required in the context of NFRD and Taxonomy Regulation and disclosed in the non financial report. We do not agree with some information that could be common within different reports. Instead, we would recommend that Pillar 3 focuses exclusively on ESG Risk Management matters. As a risk driver of existing regulatory risks such as credit risk, operational risk, market risk and liquidity risk, disclosure should encompass governance (three lines of defence…) and methodologies (definition of salient risks by sectors…). Regarding risk exposures, we reiterate that the framework is not mature enough as highlighted by the large number of methodologies currently developed by many stakeholders (rating agencies, banks, ONG…), and the time required to gather reliable and comparable data.

3. Questions regarding the implementation of disclosure requirements included in Article 449a

CRR (focus on climate change)

3.1 Scope of Pillar 3 disclosures in terms of transition risk

[15] Add link to the latest version of taxonomy before publication

The EBA is of the view that the Pillar 3 disclosures should cover all type of exposures, including 'green', 'brown' and 'neutral' to provide information on the institution's exposure to ESG risks and on how the institution is mitigating these risks, e.g. by taking into account the transition to a more sustainable economy.

In addition, given the long term nature of climate-related risks in many cases (both transition and physical risks), the time horizon of these disclosures may also be longer.

Question 19.a: To what extent do you agree or disagree with the following statements related to the scope of Pillar 3 disclosures for transition risk?

	1	2	3	4	5	Don't know/ NA
An institution whose counterparties are more exposed to risks that arise from the transition to a low-carbon and climate-resilient economy is more exposed to transition risk				X		
An institution that helps their counterparties in the transition to a green economy is mitigating its exposition to transition risks					x	
An institution that aims at improving its green asset ratios is mitigating its exposition to transition risks.		X				
An institution that aims at reducing its brown asset ratios is mitigating its exposures to transition risks.	X					
Institutions' Pillar 3 disclosures should include information not only on brown exposures but also on neutral and green exposures						NA
Given that climate-related transition risks may materialise in the medium and long term, prudential disclosure should include not only information on their present level of exposition to this risk but also forward-looking information, including potential impacts of ESG-related scenarios.				X		
Given that climate-related physical risks may materialise in the medium and long term, prudential disclosure should include not only information on their present level of exposition, including potential impacts of ESG-related scenarios but also forward looking information				X		

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Question 19.b: Please provide any explanations or relevant examples to justify your answers to Question 19.a, and information that can help in the assessment of the underlying risks.

Improving a green asset ratio and reducing a brown asset ratio may provide the optical perception that the bank is reducing its transition risks, however this can be very misleading. Such a strategy does not maximize the impact of the bank on the reduction of carbon emissions, and therefore the bank may not be aligned with Paris Accord target. The most beneficial strategy on which the bank should be assessed by supervisors and the market is to accompany clients in their carbon emissions reduction strategy.

Should Pillar 3 disclosures include information on brown, neutral and green exposures?

We do agree that contrary to a green/ brown ratio, ESG risk management disclosure should focus on the whole portfolio. However, we do not believe a classification in green/neutral/brown is informative as relate to risk management. We would rather focus on disclosures on ESG risk methodologies which are currently developed by banks and scientific experts (ACT, PACTA…). We would welcome more interactions with EBA on this important subject.

3.2 Classification of exposures

For understanding their level of exposure to climate-related transition risk, it may be effective if institutions disclose their exposures in classification into green, neutral and brown exposures and provide metrics and forward-looking information in terms of targets and level of progress expected/achieved.

Question 20: Classification of exposures for the purpose of transition risk. Please indicate to what extent you agree or disagree with the following statements.

	1	2	3	4	5	Don't know/ NA
Disclosure of classification of exposures should be specific and separate for the banking book and the trading book					x	
Disclosure of classification of exposures should be specific within the banking book, for the different lending portfolios (corporate exposures, retail exposures, real estate, consumer loans, project finance…)			X			
The methodology proposed in the taxonomy regulation is appropriate for the identification of 'green activities' in the corporate lending portfolio	X					

Identification of 'brown activities' under a brown taxonomy classification complementing the current framework would be useful	X					
For residential real estate exposures, a classification based on the energy performance certificate of the collateral is the most appropriate					X	
The methodology proposed in the taxonomy regulation is appropriate for the identification of 'green collateral' in the real estate portfolio	X					
Similarly for 'car loans', a classification based on the energy performance certificate of the vehicle is the			X			

most appropriate						

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

The following questions should help understand the institutions' current practices regarding the classification of exposures from the point of view of transition risks and on the level of implementation of the taxonomy.

Question 21.a: Please indicate to what extent you agree or disagree with the following statements, regarding the current practices by institutions in terms of classification of exposures from the point of view of transition risk.

	Yes	No	Don't know/NA
The institution is applying internal methodologies for the classification of exposures into 'green', 'brown' and 'neutral'	X		
The institution is applying external methodologies for the classification of exposures into 'green', 'brown' and 'neutral'		X	
The classification system is based in the NACE code sectorial classification (4 digits)		X	
The institution has developed and is applying a mapping of classification of the exposures into 'green', 'brown' and 'neutral' corresponding to risk category and level, e.g. credit risk, market risk etc.		X	

Question 21.b: Please provide any comments or explanations to justify your answers to 21.a, on the type of classifications applied by the institution.

The bank is developing its own methodology and tool to assess, on a holistic approach the ESG profile of its clients, and among others, the transition risk profile. The BNP Paribas methodology aims at determining and monitoring the ESG salient risks, based on internal ESG assessment of counterparties and on sector sensitivity to the risk analysis. We would be very keen to have a dialogue with EBA on this important subject. We are aligned with the ECB answer to the consultation on the Renewed Sustainable Finance (p.9): "Second… the Taxonomy only provides clear definitions of what is "sustainable" from a "normative" perspective– aimed at assessing the alignment of a given economic activity with defined sustainability goals – and not from a risk management perspective, which is aimed at minimising exposures to climate and environmental risks. Although these two perspectives sometimes overlap, they reflect distinct considerations… "

Question 22.a: Degree of implementation of the taxonomy by the institution. Please indicate to what extent the institution has started with the implementation of the taxonomy.

	1	2	3	4	Don't know/NA
Degree of implementation of the taxonomy for the purpose of the identification of environmentally sustainable exposures, contributing to climate change	X				

Mitigation					
Degree of implementation of the taxonomy for the purpose of the identification of environmentally sustainable exposures, contributing to climate change adaptation	X				

(1= not at all implemented, 2= implemented to some extent but not much, 3= implemented to a reasonable extent, 4= implemented to a great extent)

Question 22.b: Please provide any comments or indicate if the institution is using other standards for the purpose of the identification of environmentally sustainable exposures.

BNPP priority remains to define a common methodology of aligning its credit portfolio on a 2 degrees scenario, and NOT to deploy the EU Taxonomy, which was originally designed for asset managers and investment advisors, and which is not adapted to banks lending books.

Question 23: Classification of brown exposures by the institution. Please indicate to what extent you agree or disagree with the following statements.

	1	2	3	4	5	Don't know/ NA
The institution is using the significant contribution thresholds of the EU Taxonomy to determine brown assets (i.e. activities that fail to meet the thresholds to a certain extent)	X					
The institution is using the do-no-significant-harm-criteria of the EU Taxonomy to determine brown assets	X					
The institution is using a market-based classification system for brown assets	X					
The institution is using a proprietary classification system for brown assets				X		

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Question 24: Please explain in the box below the approach followed by the institution for the identification of carbon-related exposures and for the classification of those exposures, and if there is any existing standard that could be applied as a common classification system until there is a 'brown' taxonomy in the EU (examples of non-financial reporting standards could be Global Reporting Initiative, Sustainability Accounting Standards Board, Task Force on Climate-related Financial Disclosures etc.).

BNPP priority was to define a common methodology of aligning its credit portfolio on a 2 degrees scenario, and NOT to use/ develop a brown taxonomy.

Our answer to question 82 on the Renewed Sustainable Finance strategy is clearly "NO". We do not believe that a brown taxonomy should be developed at this stage by the EU.

If a "brown taxonomy" were to be developed, it could be easily misused and misinterpreted by stigmatizing many activities or sectors instead of incentivising them to transition.
If a narrow brown taxonomy were to be developed, however, it would have to ensure that it encourages rather than hinders the transition of companies' and other actors' access to finance. Finance is essential for those sectors to undertake the necessary transition. If that were to be the case, one could envision a more practical and narrow brown taxonomy that – with the exception of solid fossil fuels (excluded by law) – does not eliminate activities or sectors, but looks at the most polluting and damaging ways of conducting an activity and would list only those technologies or practices that should be eliminated in the near term. The list should be narrow, concise, updated periodically (every 5 years as the EU taxonomy.

Instead of implementing a brown taxonomy and brown ratio, we are monitoring the activities for which the bank has committed to some sector specific financing and investment policies as related to industries that present major ESG challenges (eg. mining, coal-fired power generation, unconventional oil & gas). Developed in cooperation with independent experts, these policies are public and apply to all business lines and countries where we are present.
https://group.bnpparibas/en/financing-investment-policies

Question 25.a: Neutral exposures. Please indicate to what extent you agree or disagree with the following statements.

	1	2	3	4	5	Don't know/ NA
All the exposures in the relevant portfolios that are not classified as 'green' or 'brown' by the bank should be considered as neutral			X			

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Question 25.b: Please provide any comments or explanations to support your answer.

This classification is not adapted to banks whose main mission is to accompany their clients to shift their business model to a low carbon one whichever the current color of their activity/sector is.

Question 26.a: Classification of exposures in terms of level of exposition to physical risk. Please indicate to what extent you agree or disagree with the following statements.

	1	2	3	4	5	Don't know/ NA
Classification of exposures in terms of level of exposition to physical risk should also follow criteria based on the geographical location of the exposure and the identification of those geographies more exposed to physical risk				X		
Classification of exposures in terms of level of exposition to physical risk should also consider insurance coverage				X		
Classification of exposures in terms of level of exposition to physical risk should also consider other criteria						X

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Question 26.b: Please provide any comments or explanations to support your answers to Question 26, particularly if you consider that there are other criteria for each portfolio relevant to the classification of exposures in terms of physical risk.

Credit risk exposures and volumes of physical collateral need to disclosed by sectors and geographic zones.

Two important caveats: (i) physical risks must be assessed at a very granular level and not at country level, however they should not be disclosed at such granular level but possibly by risk intensity buckets (very high, high, moderate…); (ii) this information needs to be disclosed at an aggregated level, in order to avoid any stigma that could translate into geopolitical risk or potential massive disinvestments from risky areas, whereas, on the contrary, those areas may require significant investments for adaptation.

For the time being, as there is very little disclosure available on activities localisations, we suggest to focus on the main assets of our clients and not on their total value chain.

3.3 Metrics and information to be disclosed

Question 27.a: Please indicate to what extent you agree or disagree with the following statements, regarding the calculation of a green asset ratio and the metrics proposed in the EBA action plan on sustainable finance and the Commission Guidelines on climate-related reporting

	1	2	3	4	5	Don't know/ NA
The following metric, volume of financial assets funding sustainable economic activities contributing substantially to climate mitigation and/or adaptation, is appropriate to estimate the green asset ratio for corporate exposures			X			
The following metric, volume of collaterals related to assets or activities in climate change mitigating sectors (classified based on the energy performance certificate level), is appropriate to estimate the green asset ratio for residential real estate portfolios			X			
The following metric, total amount of the fixed income portfolios invested in green bonds, is appropriate to estimate the green asset ratio for bonds portfolios			X			
The following metric, total amount of 'green' car loans, to total car loans, based on the energy performance certificate classification, is appropriate to estimate the green asset ratio for consumer loans portfolios			X			
There should be specific metrics to disclose the green asset ratio for the trading portfolio	X					
There are other metrics that work better in order to calculate the green asset ratio of the institutions' portfolios					X	
The ITS should define an aggregate metric that provides an overview of the green asset ratio for all the institution's balance sheet	X					

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Question 27.b: Please provide any comments or explanations to justify your answers to Question 29.a particularly if you suggest that there should be specific metrics for the trading book, or if you think that there are other metrics that may work better than those suggested in the EBA Action plan on sustainable finance, or if you think that the ITS should define an aggregate metric to reflect the green asset ratio of the institutions' balance sheet (provide explanations on the potential metrics).

An indicator that would work better than a 'green ratio' would be the Alignment of the credit portfolio with 2°C scenario. This metric would be more forward looking information in terms of companies' strategy with quantitative objectives. What really matters for stakeholders is not so much the current compliance with the taxonomy but the strategy of the company to adapt to 2 degrees scenario. EU banks are fully committed to accelerate the transition, as shown in the recent signature of the Principles for Responsible Banking, and of the Collective Commitment to Climate Action (CCCA) initiative, under UNEP-FI umbrella, endorsed on 18 September 2019 by 32 Signatory Banks of the Principles for Responsible Banking. These banks have committed to align their portfolios to reflect and finance the low-carbon, climate-resilient economy required to limit global warming to well-below 2, striving for 1.5 degrees Celsius.

If a 'green ratio' were to be defined by the Delegated Act of the Taxonomy Regulation by June 2021 for banks for disclosure purposes (and not for risk management purposes and prudential purposes), the ratio should be tailored to a scope which would avoid providing the market with misleading information. The ratio should be the proportion of:
-Volume of Eligible Financial Assets that are EU taxonomy-aligned (in exposure amounts in €)
-on Total Eligible Financial Assets (in exposure amounts in €).
With Eligible Financial Assets (EFA) being defined as all asset classes for which the EU taxonomy can apply, with appropriate phasing. For example, in the medium term, relevant Eligible Financial assets would include: mortgage loans and real asset financing, other asset financing including project finance, and other corporate loans in activities covered by the EU Taxonomy, when use of proceeds is clearly allocated to Capital expenditures and/or operating and maintenance expenses. Indeed, other banking assets, (i) for which the application requires many assumptions such as general purposes corporate loans and (ii) for which the application of the taxonomy would not provide relevant information to the market, such as central banks deposits, sovereign debt, trading assets or hedging derivatives should be excluded from the Total Eligible Financial Assets.

It is difficult to propose some priorities in terms of exclusions from the 'green ratio', as they depend on the unavailability/ irrelevance of the data:
- Sovereigns debts need to be excluded till some disclosures by the States or some methodologies would enable banks to assess their sustainability; even if at some point, there could be a methodology to define the 'greenness' of a sovereign issuance (a part from a green bond), it would be questionable whether a disincentive should be given to banks to invest in poorly ESG rated sovereigns as it could create serious financial instability, including within the EU.

- Corporate loans without use of proceeds need to be excluded till some common and robust methodologies in order to make the split EU Taxonomy eligible/ non eligible are defined (revenues, balance sheet, business lines …?) and the information disclosed by the corporates.

-How to assess Central Banks deposits when the only information available will probably remain the share of green bonds they hold of the total amount of the green market. Indeed, C.Lagarde, in the letter L/CL/20/231 on climate change on 25 September 2020 to the European Parliament states that "under the corporate sector purchase programme (CSPP), the Eurosystem holds close to 20% of the CSPP-eligible green bond universe, the proceeds of which are used to finance projects with an environmental benefit."

- We believe that it makes no sense to include the trading book in the scope of the bank 'green ratio'. The trading book, unlike the investment book, is used to provide liquidity to the market. Holding periods are generally very short. Therefore focussing market making activities in green assets would crowd out the liquidity of non green assets and would create serious financial stability issues. A metric that would be more relevant would be the activity of the bank on the primary market.

For the essential purpose of feasibility, we propose to limit the application of the EU taxonomy to the Eligible Financial Assets in the first step to newly originated loans (given it would be more burdensome than useful to screen booked/past transactions). In addition, as per above, implementation should be on a best effort basis for all clients for which disclosure is not mandatory (for instance non EU customers or SMEs who both will not be submitted to the Revised NFRD).

Question 28.a: Please indicate to what extent you agree or disagree with the following statements, regarding the calculation of metrics on brown assets.

	1	2	3	4	5	Don't know/ NA
The metrics included in the Commission non-binding guidelines on climate change reporting[16], Annex I (further guidance for banks and insurance companies), related to brown assets are appropriate	X					
Metrics reflecting concentration risk on brown assets are appropriate			X			
A metric based on volume of assets with brown collaterals compared to total assets, based on the energy performance certificate would be appropriate	X					
The following metric, total amount of 'brown' car loans, to total car loans, based on the energy performance certificate classification, is appropriate to estimate the brown asset ratio for consumer loans portfolios	X					
There should be specific metrics on brown assets for the trading portfolio	X					
The indicators on principal adverse impacts proposed in the ESAs' consultation document on ESG disclosures are appropriate	X					
There are other metrics that work better					x	

The ITS should define an aggregate metric that provides an overview of brown assets for all the institution's balance sheet	X					

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Question 28.b: Please provide any comments or explanations to justify your answers to Question 30.a particularly if you suggest that there should be specific metrics for the trading book, if you think that there are other metrics that may work better than those suggested in the table, or if you think that the ITS should define an aggregate metric that would provide an overview of

[16] https://ec.europa.eu/finance/docs/policy/190618-climate-related-information-reporting-guidelines_en.pdf

brown assets for all the institution's balance sheet (provide explanations on the potential metrics).

CF. Our answer in Questions 7.b and 24

Instead of implementing a brown taxonomy and brown ratio, we are monitoring the activities for which the bank has committed to some sector specific financing and investment policies as related to industries that present major ESG challenges (eg. mining, coal-fired power generation, unconventional oil & gas). Developed in cooperation with independent experts, these policies are public and apply to all business lines and countries where we are present.

BNPP committed to align with the Sustainable Development Scenarios of IEA (see link below) for the sector of energy. We communicate that the electricity mix financed by BNP Paribas has a lower average carbon footprint than that of the world mix.

This type of sector based indicators will be developed in the future.

https://www.iea.org/reports/world-energy-model/sustainable-development-scenario

Question 29.a: Scope 3 emissions by the institution. Please indicate to what extent you agree or disagree with the following statements.

	1	2	3	4	5	Don't know/ NA
The institution is able to disclose information on the weighted average carbon intensity of each portfolio	X					
The institution is able to disclose information on the methodologies that they are developing to measure the carbon intensity of each portfolio, and to eventually estimate a weighted average carbon intensity metric	X					

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Question 29.b: Please provide any comments and explanations to justify your answer to Question 31.a particularly in relation to methodologies in use or under development to measure the weighted average carbon intensity of institutions' portfolios.

Methodologies for scope 3 on the bank lending portfolios for the financial sector are under development. Banks currently disclose:
-their scope 1 Direct GHG emissions from sources owned by the company (tCO2)
- and scope 2 Indirect GHG emissions from the generation of consumed electricity, steam, heat, or cooling (collectively referred to as "electricity") with the % coming from renewable energy and non renewable

3.3.1 Metrics and information to be disclosed – With reference to the NFRD and Article 8 of the Taxonomy Regulation

Question 30: What information should institutions subject to the NFRD disclose (e.g. as part of their prudential and/or broader ESG disclosures, including their non-financial reports) to indicate how their financial or broader commercial activities align with economic activities identified as environmentally sustainable in the EU taxonomy, whether carried out in-house or performed by third parties? Which financial or commercial activities should be included/excluded?

We propose a specific 'green ratio' tailored for banks as detailed in our questions to Question 6.a and 18.b and 29.a. We propose to exclude some assets from the ratio calculation on the numerator and denominator of the ratio.

Question 31: Article 8 of the Taxonomy Regulation will require non-financial undertakings

Non-financial undertakings under the NFRD will have to report the proportion of their turnover, capital expenditures (CapEx) and operating expenditures (OpEx) associated with environmentally sustainable economic activities, as per the EU taxonomy, according to Article 8 of the Taxonomy Regulation.
And the challenges for corporates will be high.

https://sustainablefinancesurvey.de/survey
The September 2020 European Sustainable Finance Survey, led by Adelphi and ISS ESG and mandated by the German Ministry of the Environment, disclosed many figures on the disclosure of ESG data by the 75 European companies listed on the three main European indices EURO STOXX 50, CAC 40 and DAX.
The report highlights the extremely low level of taxonomy compliance (alignment) among companies and stresses that, from a company perspective, achieving full compliance with the taxonomy appears very challenging.
Less than third of the revenues stem from economic activities that are defined as taxonomy-relevant activities in the final TEG Report.
Around a fifth of the revenues stemming from taxonomy-relevant activities (hence 3%-5%) meet the SC criteria. "Reasons include 'ambitious' and/or non-verifiable taxonomy criteria. For 'transition' activities (…) in particular, the taxonomy defines quantitative emission intensity thresholds that are more ambitious than common market standards (...) In addition, limited data availability inhibits the verification of whether quantitative thresholds are met, leading to some activities being counted as not aligned."
When they apply the DNSH criteria, the share of total revenue estimated to be fully taxonomy-aligned is divided by 2 (1% - 2%), mainly due to a high carbon economy, the currently proposed set of activities in the TEG report, and reporting practices.
This very small number hides the reality that " 95% of companies analysed were found to already invest in climate change mitigation, whether through capital expenditure (CapEx) and/or operational expenditure (OpEx). "

The challenges reported by companies on the Taxonomy are many. Incomplete definitions undermine the taxonomy's impact. Companies also note a lack of clarity and resources available for applying the taxonomy. The taxonomy's disclosure requirement will be very challenging for companies to fulfil and 75% of them see no benefit from taxonomy-based disclosure.

As related to KPIs related to banks, we reiterate our proposal for a specific 'green ratio' tailored for banks as detailed in our questions to Question 6.a and 18.b and 29.a. We propose to exclude some assets from the ratio calculation on the numerator and denominator of the ratio.

under the NFRD to report the proportion of their turnover, capital expenditures (CapEx) and operating expenditures (OpEx) associated with environmentally sustainable economic activities, as per the EU taxonomy. If turnover, operating expenditures (OPEX) and capital expenditures (CAPEX) are not appropriate, what alternative indicators achieve the same purpose? What key performance indicators (KPIs) are best suited to disclose information identified in Question 30? What should constitute the numerator and the denominator for a specific KPI for institutions (banks and investment firms)?

3.4 Availability of relevant and meaningful information

The EBA understands that one of the main challenges for institutions when disclosing information on ESG risks is the availability of relevant and meaningful information from their counterparties. The following questions are related to this topic.

Question 32.a: On the status of available information. Please indicate to what extent you agree or disagree with the following statements.

	1	2	3	4	5	Don't know/ NA
It is challenging for institutions to have access to the information that they need from their counterparties in order to prepare their own disclosures					X	
In the case of corporates, the non-financial reports that they have to publish under the NFRD is a main source of information	X					
Information collected on a bilateral basis when granting the facilities or in the monitoring process is a main source of information in the case of corporates.			X			
Information collected on a bilateral basis when granting the facilities or in the monitoring process is a main source of information in the case of SMEs.		X				
Information collected on a bilateral basis when granting the facilities or in the monitoring process is a main source of information in the case of retail.	X					
Information provided by third parties is a main source of information in the case of corporates.			X			
Information provided by third parties is a main source of information in the case of SMEs.		X				
Information provided by third parties is a main source of information in the case of retail.	X					
Institutions have to use other sources of information, different from the ones mentioned in this question, in order to collect the information that they need from						X

their counterparties						

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Question 32.b: Please provide any comments or explanations to justify your answers to 32.a, particularly in relation to other potential sources of relevant information.

BNPP is massively investing in Data gathering and IT systems for its own priorities related to ESG risks and opportunities. As the regulatory requirements currently remain uncertain, it is impossible to invest at this stage into industrialized processes for regulatory purposes.

Question 33.a: On the way forward in terms of improving the access by institution to relevant and meaningful information. Please indicate to what extent you agree or disagree with the following statements.

	1	2	3	4	5	Don't know/ NA
The NFRD review should provide a very good basis to address the lack of available information from institutions' counterparties					X	
The implementation of the EBA Guidelines on loan origination and monitoring[17] should help institutions get the information that they need on a bilateral basis and to address relevant ESG risks	X					
Information that market participants will have to disclose regarding their investment products under the SFDR and the RTS of the joint committee of the three ESAs should facilitate the access by institution to relevant information in their investment portfolio	X					
Geolocation software should help to get very relevant information on the exposures and assets with high level of exposition to physical risk						X
Relevant information should be facilitated by other solutions					X	

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Question 33.b: Please provide any comments or explanations to justify your answers to 33.a, particularly in relation to other potential sources of relevant information.

[17] https://eba.europa.eu/sites/default/documents/files/document_library/Publications/Guidelines/2020/Guidelines%20on%20loan%20origination%20and%20monitoring/884283/EBA%20GL%202020%2006%20Final%20Report%20on%20GL%20on%20loan%20origination%20and%20monitoring.pdf

Regarding the availability of ESG data and non-financial disclosure in general, digitalisation could be of great benefit. Here we would strongly advocate for the creation of a centralized database that would facilitate ESG disclosures and the access to relevant and reliable data at EU level (ideally in a standardized form but also providing access to disaggregated raw data).