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 CO_2 emission and academic approaches (EBA)
- **'Green'** → based on the **EU Taxonomy**
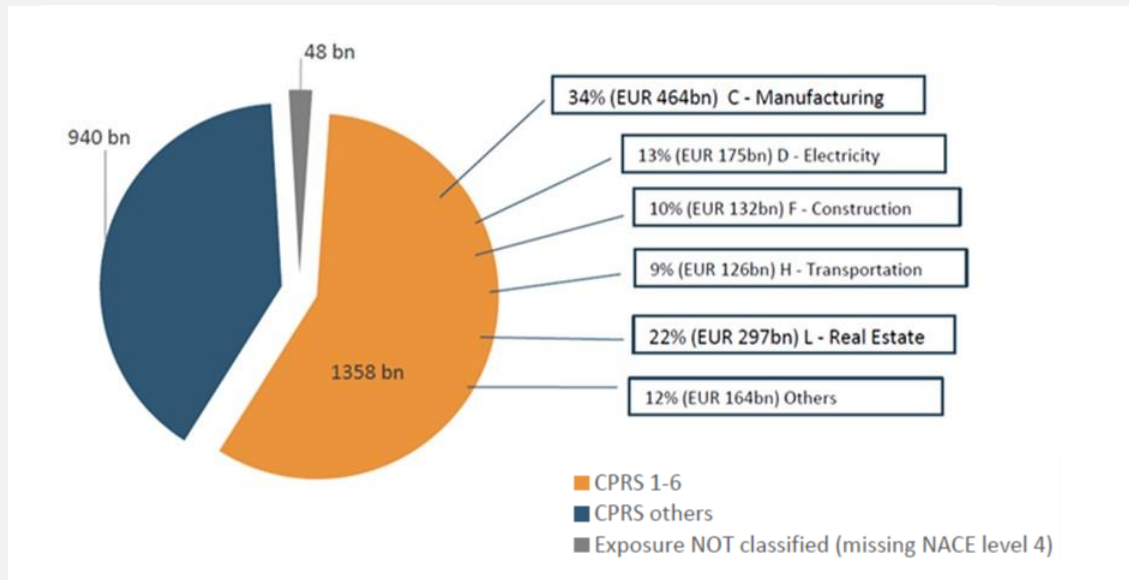- **Sensitivity to shocks (transition risk)**

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**

[1] For further details: EBA – Mapping climate risk: Main findings from the EU – wide pilot exercise, May 2021

[2] Exposures in line with COREP (31/12/2019)

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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 (CPRS[2] approach) and *green analysis* (based on EU Taxonomy).

CPRS classification of EU exposures (EUR bn)

48 bn
940 bn
1358 bn

- 34% (EUR 464bn) C - Manufacturing
- 13% (EUR 175bn) D - Electricity
- 10% (EUR 132bn) F - Construction
- 9% (EUR 126bn) H - Transportation
- 22% (EUR 297bn) L - Real Estate
- 12% (EUR 164bn) Others

- CPRS 1-6
- CPRS others
- Exposure NOT classified (missing NACE level 4)

Green Asset Ratio (GAR)

- Bank estimate
- TAC estimate

7.9%
7.1%

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.).*
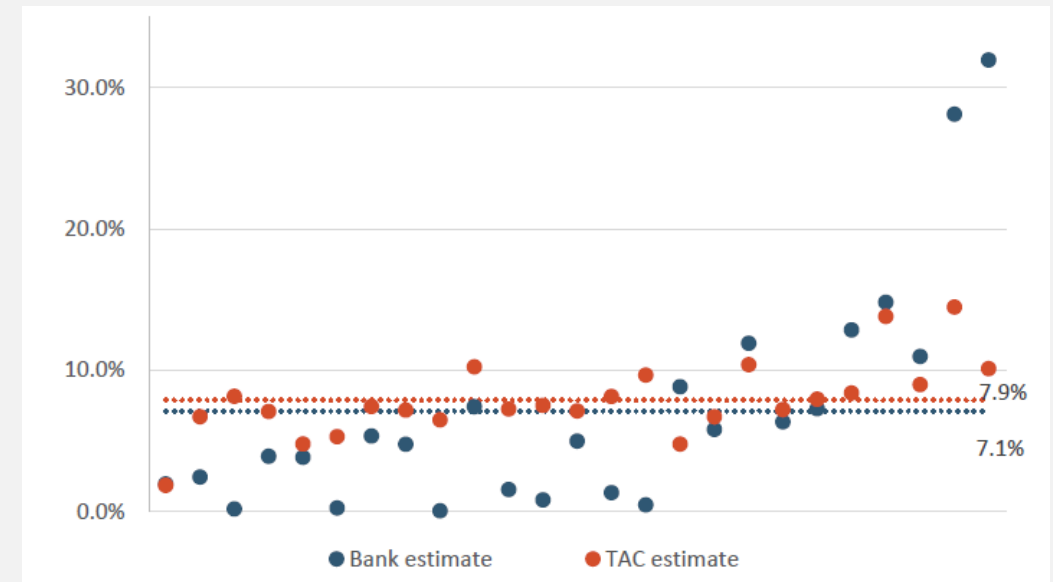
*The green asset ratio **(GAR) is constructed for each bank by dividing the green amount** - available only for a subset of exposures - **by the total original exposure**.*
***Two classification approaches** were considered: **bottom up**, applied by Banks and a **top down** approach, applied by EBA 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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Green analysis - EU Green taxonomy classification

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.

Climate change mitigation
TSC: net-zero emissions by 2050 and a 50-55% reduction by 2030

Climate change adaptation
TSC: build capacity, increase resilience

sustainable and protection of water and marine resources;

transition to a circular economy

pollution prevention and control;

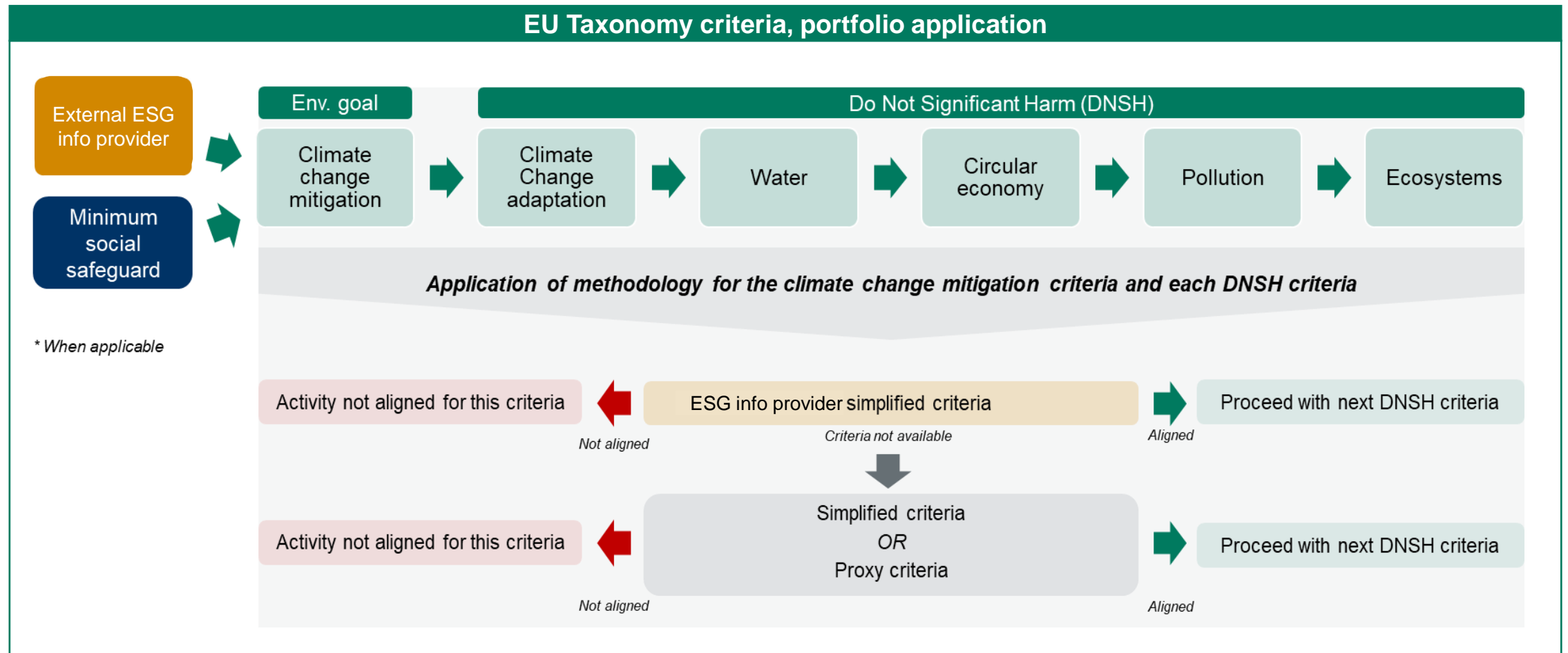protection and restoration of biodiversity and ecosystems.

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**.

EU Taxonomy criteria, portfolio application

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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.

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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

Thank you

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