

Event Summary

European Union - Australia Sustainable Finance Taxonomy Dialogue

Program: Technical Workshop #1
The EU Taxonomy – Sustainable Finance Data and Usability
Thursday, 3rd November 2022

ASFI and Climate KIC Australia are partnering with the support of the European Union to present the **European Union-Australia Sustainable Finance Dialogue**, a series of technical workshops for the Australian finance and regulatory community to share expertise and experiences on the development and implementation of sustainable finance policy, including the EU Taxonomy.

At this webinar held on 3 November 2022 the ASFI Taxonomy Technical Advisory Group had the opportunity to hear from:

- [Ali Erbilgiç](#), a Senior Policy Expert at the European Banking Authority on the EU supervisory reporting requirements, disclosure and alignment and use of EU taxonomy data.
- [Nadia Humphries](#), who is the EU Platform for Sustainable Finance Data and Usability Sub-Group Co-Rapporteur. Nadia presented the key findings of the recently released [Platform Recommendations on Data and Usability of the EU Taxonomy](#).

European Banking Authority - Ali Erbilgiç

Mr Erbilgiç presented on the European Banking Authority's (EBA) work on sustainable finance across three key pillars:

- Pillar one: Prudential Treatment
- Pillar two: Risk management and supervision
- Pillar three: other disclosures including on ESG risks, the EBAs advice on Article 8 of the Taxonomy Regulation and joint ESAs RTS under Sustainable Finance Disclosure Regulation.

Mr Erbilgiç highlighted the following key considerations and issues in relation to ESG risk and disclosures:

- the imperative to ensure alignment with disclosures across all pillars
- Non-financial disclosures will provide input for banks and financial institutions on their own disclosures. Accordingly, there is a need for meaningful, comparable, and accurate information.
- The EBA has a mandate for stress-testing of financial institutions themselves as well as those that are being funded and invested in. The EBA is seeking to understand the exposures of banks relative to their large corporate lenders, however data is an ongoing challenge.

Mr Erbilgic discussed the EBAs work on green washing with other ESA's as well as definitions for green loans and products. He stated that the EBAs work in sustainable finance was mostly focused on risk and that the EU Taxonomy could be helpful in this assessment although it is not designed as a risk management tool. However, banks could use the EU Taxonomy as a tool to set strategic objectives, targets and limits, so those investments can be less subject to transition risks.

EU Taxonomy could play a role in banks transition plans, to minimise risks of misalignment under Pillar Three and with sustainability goals. The EU taxonomy is also an essential element, in product labelling and in helping to define green loans and products. Although data challenges remain, the EU Taxonomy is crucial to ensure the financial system is resilient and funds are directed to sustainable activities.

Q&A:

Are the current structures considered sufficient to accommodate climate risk, and whether Pillar One was adequate?

EBA reply: The EBA is currently considering whether the existing framework under Pillar one captures environmental and social risks, and if not, what needs to be developed. For example, environmental risk might be captured by banks in their qualitative evaluation – where weighting of risk depends on loan/value ratio of the collateral. If environmental risk is incorporated in pricing, may be captured on bank balance sheets.

If so, further prudential approach would be double accounting. Ratings of corporates may also incorporate this. However, the EBA have not yet formed a view on whether pillar one is sufficient and want to take an informed policy decision.

On whether the current banking architecture is sufficient to play the role of directing funds? Mr Erbilgic responded that the banking regulation should be risk based and not used for other objectives. The sector needs to be prudent, correctly regulated and credible.

EU Platform on Sustainable Finance Sub-Group 5: Data and Usability – Nadia Humphreys

Ms Humphreys presented the findings of a recently released report on data and usability in relation to the EU Taxonomy. She provided an overview of the EU sustainable finance strategy elements from perspectives of different actors in the finance system, and the roles and responsibilities of the Platform in providing advice and recommendations to the European Commission.

Commencing with a comprehensive summary of European market trends on taxonomy reporting and international adoption, Ms Humphreys outlined several topics covered in the report including:

- Data: market observations and usability challenges, and the use of the term “equivalent information” for reporting, what the term meant and the use of estimates if the information is not available.
- Verification: what information should be verified and who by?
- Sustainable Finance Regulatory Framework: the need for consistency in terminology and coherence across regimes.
- International considerations: the EU Taxonomy application outside of Europe, the role the International Platform for Sustainable Finance can play and support for investment in developing markets.

The insights on how the EU taxonomy feeds into disclosure and broader EU sustainable finance objectives, and the key considerations highlighted on the availability of data and EU taxonomy reporting obligations—particularly around Do No Significant Harm criteria—were of high relevance to Australia as it seeks to finalise recommendations on the design elements of its taxonomy framework.

ASFI thanks both Ali Erbilgic and Nadia Humphreys for their time to provide their valuable insights on this topic. A full recording of the webinar and the slide-decks are available to the ASFI Taxonomy Technical Advisory group.

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