EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB response to the ESAs' joint consultation on sustainability-related disclosures for STS securitisations

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1 General remarks

The ECB welcomes the joint initiative of the European supervisory authorities (ESAs) with a view to enhancing transparency regarding climate-related disclosures for STS securitisations. Asset-backed securities (ABSs) are an important financing instrument for banks and other financial institutions in the euro area. They are often backed by assets that are exposed to climate change transition and physical risks, such as real estate mortgages or car loans. At the same time, information on the climate-related risks of the assets underlying those ABSs is rarely reported, reflecting both the scarcity of granular data for existing loans (e.g. data on the energy performance of houses and vehicles) and – even more so – a lack of harmonised reporting requirements. The joint initiative that has been conducted by the ESAs with a view to publishing sustainability templates for STS securitisations is therefore a welcome step in terms of fostering climate-related reporting for ABSs and enhancing transparency regarding climate-related risks for investors.

STS securities – and ABSs more generally – are an important source of collateral for Eurosystem counterparties, as well as being purchased by the Eurosystem under its ABS purchase programme (ABSPP). In the first quarter of 2022, Eurosystem counterparties used €413 billion[1] of ABSs as collateral in Eurosystem credit operations, with those instruments accounting for 15% of total mobilised collateral. In addition, the Eurosystem currently holds €26 billion of ABSs outright in its monetary policy portfolio,[2] of which 83% are backed by residential mortgages or car loans. Consequently, the Eurosystem is exposed to the climate-related risks of the underlying assets and would benefit from increased transparency regarding the climate-related risks pertaining to those ABSs. Comprehensive and more consistent data on the climate-related risks of ABSs and the underlying assets would also help to incorporate climate-related considerations into the Eurosystem's monetary policy framework.

Climate-related reporting templates should aim for consistent treatment of different financial instruments backed by similar types of collateral. The proposed sustainability templates for STS ABS constitute an important step towards more harmonised and transparent reporting of climate-related information for securitisations. At the same time, further legislative and/or regulatory action should aim to ensure broader adoption of climate-related disclosure, irrespective of the specific type of financial instrument or label. In particular, the proposed templates could be extended to cover non-STS ABSs, in order to encourage and enhance transparency regarding financial instruments backed by the same types of asset. Similarly, covered bonds that are backed by real estate mortgages likely resemble real estate-backed ABS in terms of their exposure to climate-related risks. Having consistent and harmonised templates for different asset classes would avoid an unwarranted proliferation of inconsistent disclosure standards, foster comparability

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[1] After valuation markdowns and haircuts.

[2] Holdings under the ABSPP as at 3 June 2022.

across asset classes for investors and facilitate equal treatment of different asset classes by regulatory authorities.

Finally, the proposed standards for STS securitisations could explain more clearly how originators should treat missing data. Data availability will constitute a major challenge for originators of ABSs that decide to use the proposed STS sustainability templates. This issue is likely to become less acute as more climate-related information on new loans is collected at the time of origination. In order to encourage a broad-based improvement in data availability, the draft standards could explain in more detail how originators are expected to deal with missing data for existing loans in securitised portfolios. One option would be for originators to report the percentage of underlying exposures for which no data are available, ideally distinguishing between different reasons for the absence of data, as is currently done with the templates for loan-level data (underlying exposures) that are maintained by the European Securities and Markets Authority (ESMA). Another option would be to allow for estimated data and ask originators to (i) disclose the percentage of underlying exposures for which data underpinning the principal adverse impact (PAI) indicators have been estimated and (ii) disclose details of their estimation methodology. This would mirror the approach pursued by the European Banking Authority (EBA) in its implementing technical standards for Pillar 3 disclosure requirements on environmental, social and governance-related (ESG) risks, but it could result in less accurate information.

2 Replies to selected consultation questions

In the medium term, the STS sustainability templates could be integrated into a revised version of ESMA's loan-level templates for ABSs. The proposed sustainability templates for STS securitisations complement some of the climate-related fields in ESMA's loan-level data templates (underlying exposures). In the medium term, integrating the proposed STS templates into ESMA's loan-level data templates (to the extent possible) would avoid having a multiplicity of templates, thereby streamlining climate-related reporting for ABSs and enhancing transparency for investors. However, the need for a comprehensive review of ESMA's loan-level reporting templates should not prevent the STS sustainability templates from being adopted and used right away, and we therefore support the use of separate templates in the short term.

Appropriate disclosure regarding the exposures contained in securitised assets is crucial for well-informed investment decisions. To this end, we recommend that originators provide complete and updated information on whether and how PAI indicators on sustainability factors have been taken into account in (i) the originator's credit approval criteria and (ii) the selection of the exposures included in the relevant pool. In the same vein, we recommend that originators also disclose this information in relation to transactions involving – even in part – exposures that they have purchased from third parties and then securitised. Originators should not just provide details of quantitative thresholds and tests; they should also provide information on other qualitative principles and criteria that were used in the selection process.

The STS sustainability templates should allow originators to cross-reference existing disclosures in order to limit the additional reporting burden. To the extent that originators also fall within the scope of the Sustainable Finance Disclosure Regulation (SFDR), cross-referencing the relevant SFDR disclosures at entity level (e.g. the PAI statement) would limit the reporting burden and would therefore be desirable. It would also avoid the duplication of information.

The templates should ideally be closely aligned with the SFDR and the draft regulatory technical standards (RTSs) under the SFDR, but this should not preclude the inclusion of additional indicators relevant for climate-related risks. We are in favour of aligning the STS sustainability templates with the SFDR disclosure requirements, as this will harmonise the reporting burden for those originators which are also subject to the SFDR. Furthermore, it will, in turn, facilitate compliance with the SFDR for those financial market participants that want to include STS ABSs in investment products. At the same time, the SFDR focuses on an asset's PAI from a sustainability perspective, but does not necessarily capture the extent to which the asset is exposed to climate change risk. Including a broader set of climate-related metrics in addition to the SFDR-based PAI indicators would allow investors to assess climate-related risks in a more comprehensive manner.

Information on the percentage of non-green assets would, in principle, offer a valuable complement to the PAI indicators in terms of assessing transition risks, but the proposed non-green asset ratio would be misleading. As the consultation document acknowledges, the proposed non-green asset ratio is an imperfect indicator, since it reports the percentage of assets which fail to meet the EU taxonomy criteria as a result of failing to have a positive impact on the environment, rather than identifying assets that have an adverse impact on the environment. As such, the proposed indicator would include under "non-green assets" both (i) assets with an adverse impact on the climate and (ii) investments which could legitimately be regarded as sustainable but still fail to clear the high bar established by the taxonomy criteria. Such a non-green asset ratio would be misleading for users and would suggest that failure to meet the taxonomy criteria was equivalent to an unsustainable level of environmental performance. In this context, it would be better to simply require disclosure of the percentage of green assets. This well-established and conceptually clearer indicator would have the same information content as the proposed non-green asset ratio, without any of the potential for misinterpretation.

Additionally, it appears that the proposed non-green asset ratio is not fully aligned with the PAI indicators in terms of their scope (as regards car loans and leases). The non-green asset ratio only covers retail car loans and does not cover car leases (see Section 4.3.1 and Table 1 in the annex), whereas the PAI indicators detailed in Section 4.3.3 cover both car loans and car leases. The scope of the underlying exposures could be clarified in this regard. Although securitisation products fall outside the scope of the SFDR, investors in securities are covered by the SFDR regime and are required to report on Scope 1, 2 and 3 greenhouse gas (GHG) emissions and the carbon footprints of all asset classes (including ABSs), without differentiating between car leases and car loans. Consequently, including both car loans and car leases in the templates would facilitate compliance with the SFDR for investors holding STS ABSs.

The disclosure of additional granular metrics for real estate assets is of key importance, since this would provide essential information on both the environmental impact and exposure to climate risk. In the ECB's view, it is essential that mandatory indicators for real estate assets include the energy consumption of the building and/or its energy performance certificate (EPC). The PAI indicators in the proposed draft standards (e.g. the definition of inefficient buildings or the percentage of taxonomy-aligned assets) are based on granular information about a building's energy consumption or its EPC, to which certain quantitative thresholds are then applied. Providing a breakdown of these underlying metrics would allow investors to better assess the securitised real estate assets' exposure to climate-related transition risks. As the PAI indicators (as well as any taxonomy-based asset ratio) would, in any case, require data on the energy performance of buildings, such a breakdown would not increase the reporting burden, and it would also be consistent with the approach pursued by the EBA's implementing technical standards under the Pillar 3 disclosure requirements. Additionally, the EPC label is already one of the optional fields in the reporting template ("RREC10 Energy Performance Certificate Value") with a view to making this information available for as many securitisations as possible (see Annex 2: Underlying exposures – residential real estate). Going forward, these metrics should evolve in order to reflect changes to other relevant legislation, such as the amendments to the Energy Performance of Buildings Directive (e.g. by including the GHG emissions of buildings).

A geographical breakdown of these granular metrics for real estate assets could be warranted for ABSs containing real estate loans from different countries. At the current juncture, energy performance information on real estate (particularly EPC labels) is largely country-specific. A geographical breakdown of the suggested additional granular metrics underlying the PAI indicators could therefore be warranted where pools contain real estate assets from different countries. This would also be in line with the prudential requirements for Pillar 3 disclosures on ESG risks, which require a breakdown of energy performance data by country.

Taxonomy-based indicators appear to be the most widespread, relevant and standardised indicators for motor vehicles at this stage. Given that the SFDR RTSs do not specify PAI indicators for car loans or leases, it makes sense to define these indicators on the basis of the technical screening criteria for motor vehicles that are contained in the Climate Delegated Act accompanying the Taxonomy Regulation. This would also facilitate reporting for originators that need to report their percentage of taxonomy-aligned activities or their green asset ratio under the Taxonomy Regulation, the SFDR or supervisory obligations.

The ECB is in favour of integrating additional taxonomy-based metrics into the PAI indicators when such indicators become available. Aside from data on the direct emissions of vehicles, the technical screening criteria also contain other metrics that delineate the "do no significant harm" principle in the taxonomy (such as production emissions, air pollution or the percentage of non-recyclable batteries). Although these metrics are not widespread at the moment, they reflect vehicles' adverse impact on the environment and could be integrated into the template as optional indicators in a first step.

The ECB would support the disclosure of granular data on tailpipe emissions for car loans and leases in order to allow a more comprehensive assessment of their PAI. Similar to residential real estate, the taxonomy-based indicators required by the draft proposal for car loans and leases build on more granular metrics – i.e. tailpipe GHG emissions. To allow for a more comprehensive assessment of the PAI and transition risk exposure of car loans, the template could request (i) average tailpipe GHG emissions per km across the portfolio or (ii) a breakdown of portfolio emissions per km on the basis of predetermined brackets. This information would be in line with the key performance indicator which needs to be used to assess alignment with the technical screening criteria for vehicles – i.e. CO_2 emissions.

To ensure consistent treatment of residential and commercial real estate assets, granular data on EPC labels and energy performance could also be required for commercial real estate assets. For both residential and commercial real estate loans, the energy performance of the underlying assets is a key metric when assessing their PAI and their exposure to transition risks. With that in mind, a more granular breakdown of energy consumption and EPC labels should also be required for securities backed by commercial real estate. As with residential real estate loans, these granular metrics would, in any case, be required to assess the PAI (particularly the percentage of "inefficient real estate assets", as well as the percentage of non-taxonomy-aligned loans). Consequently, the additional reporting burden for originators would be limited.

Comparability is crucial in the context of STS securitisations, and it should be pursued wherever possible. The scope of the RTSs should therefore ensure that the templates can be used for all securitisations consisting of corporate debt (including trade receivables) to disclose information on sustainability-related PAIs. This would improve the overall quality of disclosure and would be fully aligned with the spirit of the Securitisation Regulation.

Information on trade receivables should be disclosed via the same standardised templates that are used for other corporate/SME-related assets, focusing on the seller. For the securitisation of trade receivables, the ECB supports the pragmatic approach proposed, whereby the PAI indicators which are used in the draft SFDR RTSs to assess exposure to corporations are applied to trade receivables, focusing on the seller (i.e. the corporation itself). In these transactions, the underlying exposures are invoices, which can ultimately be regarded as a means of financing for the issuing corporation in return for goods or services provided to clients (which, *stricto sensu,* are actually the ultimate debtors).

The ECB is in favour of applying the same requirements to all non-retail assets (corporate loans, SME loans or trade receivables). The ECB supports the proposal that all indicators relating to non-SME corporate exposures set out in the SFDR RTSs should be used and the same disclosure requirements should be applied. However, rather than reducing the number of indicators, it proposes aligning these requirements for SME loans, such that the possible PAI indicators for SME loans also consider Indicators 5 and 6 ("share of non-renewable energy consumption and production" and "energy consumption intensity per high impact climate sector") in Table 1 of the SFDR RTSs ("Indicators applicable to investments in investee companies"). The aim here is to avoid any type of discrimination between securitised assets based on loans to corporations, loans to SMEs and trade receivables, particularly given the importance of these asset types in banks' lending books. Furthermore, a distinction between SME loans and non-SME loans would not be consistent with the disclosure requirements under the SFDR, which could lead to a parallel reporting structure for SME loans.

Appropriate PAI indicators exist for a subgroup of securities backed by consumer loans, which could be reflected in the templates. Consumer loans which are clearly defined as being for the purposes of property, home improvement, a new car or a used car[3] could be captured under two of the templates detailed in these RTSs (i.e. residential real estate and car loans).

[3] See field CMRL25 of the template in Annex 6: Underlying exposures – consumer.

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For specific terminology, please refer to the ECB glossary (available in English only).