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Joint ESAs-ECB Statement on Climate Disclosure for Structured Finance Products

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On March 13, 2023, the European Supervisory Authorities (ESAs) and the European Central Bank (ECB), published a **Joint Statement** on climate-related disclosure for structured finance products. In describing the need for such guidance, the ESAs and ECB stated that "securitisation transactions are often backed by assets that could be directly exposed to physical or transition climate-related risks, such as real estate mortgages or auto loans. Since the value of these underlying assets could be affected by climate-related events, the ESAs and the ECB share the view that the reporting on existing climate-related metrics needs to improve, and that additional metrics are necessary. Additional climate related data will allow investors to better identify climate change-related risks while avoiding overreliance on estimates from external sources."

In light of these concerns, the ESAs and ECB are "committed" to promoting climate-related "transparency and robust disclosure requirements for financial institutions and financial products," including:

- developing advice and Regulatory Technical Standards (RTS) under the EU Taxonomy Regulation and the SFDR;
- reviewing the SFDR Delegated Regulation to "enhance ESG disclosures by financial market participants," which includes requirements for additional disclosures of decarbonization targets; and
- developing templates for voluntary sustainability-related disclosures for "simple, transparent and standardized" (STS) securitizations. Although mandatory disclosure requirements are

not yet in place, originators are being urged to collect the data needed to assess climate-related risks at loan origination, with a goal of providing “easy and seamless access to climate-related data” through “registered securitization repositories.”

The Joint Statement also observed that the European Securities and Markets Authority is “undertaking a review of the loan-level securitization disclosure templates,” with a goal to both “simplify the reporting templates where possible,” and also to introduce “new, proportionate and targeted climate change-related metrics that will be useful for investors and supervisors. The new metrics will have to meet investor needs, considering existing market practices and the reporting standards stemming from the relevant EU legislation (the EU Taxonomy Regulation, the SFDR and the forthcoming EU Green Bond Standards). This requires engagement with both originators and investors as well as with the relevant regulatory bodies to achieve an effective and proportionate approach.”

The ECB previously announced that it will take steps to include climate change considerations in its purchase programs and collateral framework to better take into account climate-related financial risk in monetary policy implementation and “support the green transition of the economy in line with the EU’s climate neutrality objectives.”

Finally, new climate change-related disclosure requirements for securitizations may also become relevant for similar funding instruments backed by the same type of underlying assets, such as covered bonds. According to the ESAs and ECB, “consistent and harmonized requirements for these instruments are necessary for assessing and addressing climate-related risks and would ensure a level playing field across similar asset classes, foster comparability for investors and facilitate equal treatment by EU supervisors.”

Taking the Temperature: Climate-related data assessment and disclosure arising in financing transactions remains a work in progress globally. For instance, last month the Council of the European Union and the European Parliament reached a deal to draft European Green Bonds Standards (“EUGBS”). The aim of the EUGBS is to establish the leading global framework for green bonds.” However, there are unique climate-related issues arising from securitization transactions, and it is unclear whether securitizations will be part of the EUGBS as per the European Banking Authority’s report (Report) on developing a framework for sustainable securitization. In addition, again as observed in the Report, the “EU taxonomy does not apply directly to securitisation transactions, and financial instruments issued within securitisation transactions are not ‘financial products’ as defined in the Sustainable Finance Disclosure Regulation (SFDR).” As a result, the input of regulators such as the EBA, ESAs and ECB ultimately should provide useful guidance in the EU for the development of a sustainable securitization regime. That guidance, in turn, may serve as a template for voluntary action or mandatory regulation in other jurisdictions. We have previously reported on the potential importance of securitization transactions to securing a portion of the massive financing necessary to fund efforts to transition to a green economy.