


Chapter 7

Climate-Related Information Disclosure and Banks' Decision-Making

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ABSTRACT

The European Union (EU)'s Non-Financial Reporting Directive (NFRD) requires listed companies to disclose non-financial information including climate-related information. Companies and banks must understand the risks posed by climate change. Banks need to collect climate-related information from companies when granting loans to assess the associated potential financial risks effectively. This study examines whether companies disclose climate-related information in accordance with the guidelines of the NFRD and whether this information is useful for credit analysis. The findings indicate that while companies do report such information, it often falls short of guideline requirements. Enhancing standardisation, content, and detail is essential to support banks in their decision-making processes. The Corporate Sustainability Reporting Directive (CSRD) and the European Sustainability Reporting Standards (ESRS) hold promise for driving improvements. Nevertheless, companies, banks, and regulators will continue to face significant challenges in adapting to evolving requirements.

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INTRODUCTION

Our planet shows signs of needing a profound shift to stop climate change. The harsh and striking speech given by United Nations (UN) Secretary-General António Guterres at the 26th Conference of the Parties is an excellent example of this concern: “Enough of brutalizing biodiversity, killing ourselves with carbon, treating nature like a toilet, burning, and drilling and mining our way deeper (...) We are digging our own graves” (Guterres, 2021). Our planet is changing, from melting glaciers to relentless extreme weather events. Sea levels are rising at double the rate of 30 years ago, oceans are hotter than ever, and parts of the Amazon rainforest now emit more carbon than they absorb (Guterres, 2021).

Companies and banks are crucial in transitioning to a low-carbon, climate-resilient economy. Working together can actively reduce, mitigate, and eliminate activities that may negatively affect the climate. Banks could go a step further by having companies disclose climate-related information to enable them to make informed decisions concerning climate change when granting and monitoring loans (EU - European Commission, 2019).

In October 2014, the European Union (EU) issued Directive 2014/95/EU of the European Parliament and of the Council, known as the Non-Financial Reporting Directive (NFRD) (EU - European Parliament and of the Council, 2014). Later, in 2017, the Guidelines on Non-Financial Reporting were published (EU - European Commission, 2017), and in 2019, the supplement on reporting climate-related information was published (EU - European Commission, 2019). These last guidelines illustrate the importance of climate change in the EU.

According to the European Bank Authority (EBA) (2020), banks should consider the risks associated with Environmental, Social, and Governance (ESG) factors for the financial conditions of borrowers, with an emphasis on the potential impact of environmental and climate change factors, in their credit risk appetite, policies and procedures. As capital providers to companies, banks must collect relevant information to analyse the risks associated with the borrowers when granting and monitoring loans. They need to obtain climate-related information to assess the potential “climate” risk.

In December 2022, the EU published Directive 2022/2464 of the European Parliament and of the Council, known as the Corporate Sustainability Reporting Directive (CSRD). It comes into force in January 2024 and amends the NFRD on disclosing non-financial information with stricter requirements to increase sustainability information's transparency, comparability, reliability, and relevance to help stakeholders make more confident and sustainable decisions (EU - European Commission, 2022b). The CSRD covers sustainability more broadly, applies to a larger number of companies than the NFRD, requires more data and information

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