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Corporate Climate Reporting of European Banks: Empircal Evidence from the STOXX Europe 600 Banks in Context of the TCFD Recommendation.

Extended Abstract

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Abstract
Climate change is a global challenge for today’s society. Internationally active banks are particularly important in this contex, as they can adjust their financial flows in line with low-carbon and climate-resilient developments in order to take action against the dangers of climate change. Against this backdrop, this study examines the disclosure of climate-related information from banks listed in the STOXX Europe 600. We use content analysis to manually asses the quality of corporate climate reporting primary based on the Climate Compliance Index created by Demaria and Rigot (2020).

1 Extended Abstract

The European Commission reemphasizes the key role of sustainable finance in achieving the goals of the European Green Deal. In more detail, increased information quality on climate- related risks and the impact of firms' business on environment and society (externalities) are crucial in realizing climate-neutral economy within the next decades. The financial sector plays a key role in tackling climate change. Nonetheless, some researchers (e.g., Bowers et al., 2020) assume that greenwashing policy may be linked to decision making about bank financing projects. Bowers et al. (2020) have observed that banks were aggressive proponents of green constructions. In this context, banks greenwash their unfavorable image due to the fact that, for examples the ambiguity regarding cost savings and revenue increases of these projects (green construction). Additionally, in a study of 114 international banks, Furrer et al. (2012) found that the implementation of climate strategies is often decoupled from the main value creating processes. In addition, various papers show that financial institutes still have huge deficits in sustainability reporting. The extent to which banks report their sustainability activities should be heavily improved (e.g., Löw et al. (2020)). Furthermore, Weber et al. (2014) have found that the financial sector has a significantly lower sustainability performance on average than other sectors (especially in areas of reporting, business ethics, product responsibilities, and employee issues).

In this context, the Paris Agreement also attempts to counteract this problem. Article 2 (1) (c), for example, aimed to take more decisive action against the danger of climate change by bringing financial flows in line with low greenhouse gas emission and climate-resilient development (Paris Agreement, 2015). In this ambitious goal, the perception of (transitory and physical) climate risks plays an essential role. Since such risks can also understood as drivers for other traditional risk types (e.g., credit, market and liquidity risks), banks should show clear extrinsic and intrinsic motivation to incorporate these climate-specific facts into their business strategy and models for all affected risk types (Global Risk 2021, 2021). The Task Force on Climate-related Financial (TCFD, 2017) recommendations cover these two issues and gain increased relevance during the last few years by listed firms from an international perspective.

Due to the exclusive position of the TCFD recommendations as a global integrated reporting framework for climate aspects, first studies have already analyzed the reporting level of these special guidelines. In this context, Demaria and Rigot (2020) used content analysis to examine the reference documents of French companies from the CAC 40 and analyzed the compliance of these companies with the general TCFD recommendations. For this purpose, the researchers constructed a Climate Compliance Index (CCI). The results showed, first, that the CCI increased over time, and second, differences between specific sectors. While Demaria and Rigot (2020) introduced this index, we see a major research gap for the European capital market and for the financial industry due to the great impact of the financial sector on carbon neutral economy.

Against the backdrop, this study examines the disclosure of climate-related information from banks listed in the STOXX Europe 600. We use content analysis to manually assess the quality of corporate climate reporting primary based on the Climate Compliance Index created by Demaria and Rigot (2020). Different from this approach our analysis considers bank-specific TCFD recommendations, too. Furthermore, we record in the analysis whether executive compensation of banks is linked to climate-relevant key figures and whether banks publish "green" metrics in line with the new EU Taxonomy Regulation (e.g. CapEx, OpEx). To identify the development of reporting practices after the announcement of the TCFD recommendations, this study covers the management commentaries, non-financial and voluntary sustainability reports of the years 2017-2020. The results show an improvement in climate-related reporting quality over time. However, our analyses reveal a distinct lack of disclosing quantitative and forward- looking information as well as of climate-related opportunities and risks, metrics and targets. Based on these results we identify potential for improvement that is helpful for banks as preparers of climate-related information and for standard setters as regulators.

- Bereich (Controlling, Accounting&Audit, Risk&Compliance, Finanzen oder Lehre)

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