

Recommendation No 9/2024 (IX.24.) of the Magyar Nemzeti Bank

on the use of a minimum set of questions to assess environmental, social and governance information in the underwriting, measurement, management and control of credit risk

I. Objective and scope of the Recommendation

The purpose of the Recommendation is to set out the expectations of the Magyar Nemzeti Bank (hereinafter: MNB) regarding the minimum set of questions to be used in the assessment of environmental, social and governance (hereinafter: ESG) information in the underwriting, measurement, management and control of credit risk, thereby increasing the predictability of the application of the law and promoting the uniform application of the relevant legislation.

The Recommendation is addressed to credit institutions and financial undertakings seated in Hungary and subject to Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (hereinafter: Credit Institutions Act), and to Hungarian branches of credit institutions and financial undertakings seated abroad (hereinafter: financial institutions).

The MNB considers that the first step in integrating ESG information into risk management is to collect ESG information in a consistent way. Due to the diversity of relevant regulations, public reporting requirements and the way sustainability reports are produced, it is desirable to standardise the data collection practices of financial institutions for ESG information and to reduce the administrative burden for companies applying for credit by defining a minimum set of questions.

The environmental risk sections of the questionnaire under this Recommendation also provide criteria to help meet the expectations set out in Sections 48–53 of MNB Recommendation 10/2022 (VIII. 2.) on climate change and environmental risks and the integration of environmental sustainability aspects in the activities of credit institutions (hereinafter the “Green Recommendation”). However, it is important to underline that the content of this Recommendation is broader than the Green Recommendation, because it includes social and corporate governance aspects in addition to environmental ones, and its scope is different, because it sets out requirements for financial undertakings in addition to credit institutions.

This Recommendation is also in line with MNB Recommendation 7/2024 (VI. 21.) on the underwriting, measurement, management and control of credit risk (hereinafter: MNB Recommendation 7/2024 (VI. 21.)). It builds on the definitions and expectations defined therein, but only for a narrow range of financial institutions that take on credit risk, and further expands the range of domestic supervisory regulatory instruments that set out the MNB’s views and expectations on ESG risks.

Given the specific nature of ESG risks, there are a number of initiatives underway to transform the European regulatory framework, which will also have an impact on domestic credit institutions. Among other things, the European Banking Authority (EBA) is reviewing the integration of sustainability considerations into Pillar 1¹, Pillar 2², and Pillar 3³ as part of its mandate, to which the MNB is actively contributing.

¹ Article 501c of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012 (hereinafter “CRR”).

² Article 98 of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

³ Article 449a of the CRR.

In the context of this Recommendation, a number of EU regulations and international standards are available on the collection and disclosure of non-financial ESG information by financial and non-financial actors.

In drafting the Recommendation, the MNB has taken into account the provisions of the Non-Financial Reporting Directive (NFRD⁴), which was the first to require the disclosure of non-financial information by the companies concerned.

Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (the Taxonomy Regulation) sets out additional requirements for companies covered by it. Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities, and specifying the methodology to comply with that disclosure obligation requires the institutions concerned to produce and disclose key indicators that require the collection of a wider range of non-financial information.

Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting (hereinafter “CSRD”) extends the collection of non-financial information to all large companies and all companies whose transferable securities are admitted to trading on a regulated market in a State of the European Economic Area, to companies other than micro-enterprises, and extends the scope of non-financial information to be collected and disclosed. The European Sustainability Reporting Standards (ESRS⁵), developed under the CSRD regulation to strengthen the comparability of sustainability reporting, also took into account the views of other framework developers that have already promoted the comparability of sustainability reporting, such as the Global Reporting Initiative (GRI) and the International Sustainability Standards Board (ISSB).

With the promulgation of Act CVIII of 2023 on the rules of corporate social responsibility, taking into account environmental, social and societal aspects, and amending other related acts, in order to promote sustainable financing and unified corporate responsibility (hereinafter: ESG Act), the provisions of the CSRD have been transposed into the domestic legal system, and the national ESG framework has been established, within the framework of which companies under the ESG Act are obliged to prepare ESG reports. In developing the ESG questionnaire under this Recommendation, the MNB has worked closely with the Supervisory Authority of Regulatory Affairs (SARA), designated as the authority under the ESG Act, to achieve the highest possible degree of harmonisation of the two sets of requirements.

In developing the Recommendation, the MNB has also taken into account the EBA report on the management and supervision of environmental, social and governance risks for credit institutions and investment firms (EBA/REP/2021/18 report) published on 23 June 2021⁶.

This Recommendation does not fully refer back to the legal provisions when formulating the principles and expectations, but the addressees of the Recommendation are of course still obliged to comply with the relevant legal requirements.

⁴ Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups of undertakings, transposed into national law by Act C of 2000 on accounting.

⁵ European Sustainability Reporting Standards

⁶ EBA report on management and supervision of ESG risks for credit institutions and investment firms, 2021. https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Reports/2021/1015656/EBA%20Report%20on%20ESG%20risks%20management%20and%20supervision.pdf

This Recommendation does not provide any guidance on data management and data protection issues, does not contain any expectations with regard to the processing of personal data, and the requirements contained herein should not be interpreted in any way as an authorisation to process personal data. Data processing in the context of the supervisory requirements set out in the Recommendation should only be carried out in compliance with the data protection legislation in force at the time.

II. Definitions

1. For the purpose of this Recommendation:
 - a) *ESG risk*: an environmental, social or governance risk that has a negative impact on the economic activity of a financial institution's client, affecting the client's ability to repay the loan, even resulting in a financial loss for the financing financial institution;
 - b) *corporate lending*: the provision of loans and money lending pursuant to Section 6(1)(40) of the Credit Institutions Act and financial leasing pursuant to Section 6(1)(89) of the Credit Institutions Act to a non-financial company (hereinafter referred to as "enterprise").

III. Expectations for the collection and assessment of ESG information

2. The MNB expects the financial institution to raise the questions set out in Annex 1 of this Recommendation, which the MNB considers relevant as part of risk management when assessing ESG information (hereinafter referred to as the ESG questionnaire), taking into account EU regulations, international sustainability reporting frameworks and domestic specificities, taking into account points 6 and 7, in the context of its new corporate lending activities, either as part of the loan application or by obtaining the relevant information from a publicly available database, and to collect and evaluate the answers to the ESG questionnaire and the information collected in the form of a database. The MNB expects the minimum content of the database to be as follows:
 - a) filling time,
 - b) reference time,
 - c) the unique identifier of the customer (e.g., a reference number)
 - d) In the case of a transaction that fails due to ESG risk considerations, the reason for the failure, and
 - e) any additional information that the financial institution itself considers relevant when completing the ESG questionnaire and analysing the information collected.
3. In the MNB's view, the ESG information collected from the ESG questionnaire is valid for the same or another new loan application until the enterprise's new report becomes available. The MNB also considers it good practice to update the ESG information in the ESG questionnaire whenever material information on the ESG risk of the customer comes to the attention of the financial institution, or in any other case that the financial institution considers relevant. It is expected that the financial institution should set out these cases in its internal rules in advance and act accordingly in its credit monitoring activities.
4. The financial institution is required to include supporting documentation for the information in the ESG questionnaire as part of the loan application. In the absence of supporting documentation, the use of ESG information is also acceptable on the basis of a declaration by the customer.
5. If the applicant company is a member of a group, the MNB expects the financial institution to collect ESG

information at the group level and separately for each member to which it is exposed. If some or all of the ESG information is not available or not interpretable at the level of the customer group member, it is acceptable to partially complete the ESG questionnaire for the customer group member.

6. Guidance on how to complete the ESG questionnaire is provided in Annex 2 to this Recommendation.
7. The MNB expects the questions in the ESG questionnaire to be asked for both domestically seated and foreign seated but domestically established loan applicants.
8. For a new loan application of a foreign applicant enterprise that is not seated and has no establishment in the country and whose contract amount exceeds EUR 1 million, the MNB expects the financial institution to provide a written summary and assessment of the ESG information relevant to the enterprise, covering at least the following topics:
 - a) company size;
 - b) activities;
 - c) mitigating climate change;
 - d) adapting to climate change;
 - e) sustainable use and protection of water resources;
 - f) the transition to a circular economy;
 - g) pollution prevention and control;
 - h) protecting and restoring biodiversity and ecosystems;
 - i) employee relations;
 - j) impact on society;
 - k) consumer relations;
 - l) reporting;
 - m) supplier evaluation;
 - n) ethical operation;
 - o) corporate governance.
9. The MNB expects the financial institution to develop a set of criteria for assessing the responses to the ESG questionnaire – at least in the form of a qualitative assessment in the first two years of the Recommendation’s entry into force, and in the form of scoring, weighting, numerical assessment in the subsequent years – and to set them out in its internal policies, so that ESG risks can be incorporated into its credit risk management processes, including for the credit risk rating of the enterprise, the assessment of the loan application and the ancillary services linked to the enterprise’s loan.
10. The MNB expects the financial institution to publish a notice on its website drawing the attention of corporate clients to the financial institution’s expectations regarding the collection of ESG information.

IV. Closing provisions

11. This Recommendation is a regulatory instrument issued pursuant to Section 13(2)(i) of Act CXXXIX of 2013 on the Magyar Nemzeti Bank, which is not binding on supervised financial institutions. The content of the Recommendation issued by the MNB expresses the requirements imposed by the legislation, the principles and

methods proposed to be applied on the basis of the MNB's enforcement practice, market standards and conventions.

12. Compliance with the Recommendation will be monitored and assessed by the MNB in the course of its monitoring and surveillance activities of the financial institutions it supervises, in line with general European supervisory practice.
13. The MNB draws attention to the fact that the financial institution may make the content of the recommendation part of its policies. In this case, the financial institution is entitled to indicate that its rules comply with the relevant number of recommendations issued by the MNB. If the financial institution wishes to include only parts of the recommendation in its policies, it should avoid referring to the recommendation or use only the parts of the recommendation that are reproduced.
14. Subject to point 15, the MNB expects the application of this Recommendation by the relevant financial institutions from 1 January 2025.
15. The MNB expects the application of points 2 to 7 of this Recommendation,
 - a) for new corporate lending exceeding the contract amount of HUF 500 million, from 1 July 2025,
 - b) for new corporate lending exceeding the contract amount of HUF 350 million, from 1 July 2026,
 - c) for new corporate lending exceeding the contract amount of HUF 200 million, from 1 July 2027,
 - d) for new corporate lending exceeding the contract amount of HUF 100 million, from 1 July 2028from the financial institutions concerned.
16. If, for prudential reasons, a financial institution applies points 2–7 of this Recommendation also for contract amounts lower than the contract amounts set out in point 15 or from earlier dates indicated in the same points, the MNB considers and recommends that it is good practice for the financial institution to use the questionnaire set out in Annex 1 to this Recommendation as a starting point for the assessment of ESG information. In such cases, where a financial institution asks an enterprise a question on ESG information that is also included in the question set in Annex 1 to this Recommendation, the MNB considers it good practice to apply the question in the same way as the question set in Annex 1.

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ESG questionnaire



esg_questionnaire.
xlsx

Guide to completing the ESG questionnaire

I. Structure of the questionnaire

1. The ESG questionnaire contains 4 main thematic blocks and 15 sub-blocks, structured as follows:
 - a) General
 - aa) Company size
 - ab) Activity
 - b) Environmental
 - ba) Mitigating climate change
 - bb) Adapting to climate change
 - bc) Sustainable use and protection of water resources
 - bd) Transition to a circular economy
 - be) Pollution prevention and reduction
 - bf) Biodiversity and ecosystem protection and restoration
 - c) Social
 - ca) Employee relations
 - cb) Impact on society
 - cc) Consumer relations
 - d) Corporate Governance
 - da) Reporting
 - db) Assessment of suppliers
 - dc) Ethical operation
 - dd) Corporate governance

II. Detailed instructions on how to complete the ESG questionnaire

2. Columns A to D ("Block", "Sub-block", "Question number", "Sequence number") show the structure of the questions, for easier searchability and filtering, the completing person has no task with these columns.
3. Column E ("Question") contains the questions along which it is proposed to assess the ESG information of the applicant company, taking into account the requirements of the Recommendation.
4. Column F ("Answer options") contains the data points for the answers to each question.
5. Column G ("Unit of measurement") contains the types of responses that are acceptable for each data point, the following occur:
 - a) Code list: to be filled based on a given set of values
 - b) Quantitative data
 - ba) Values: must be given in HUF. If the company prepares its annual accounts in a currency other than HUF, the amounts must be converted into HUF at the official exchange rate published by the MNB for the given date.
 - bb) Employee data: to be given in whole persons (except where column E of the questionnaire specifically indicates hours worked).
 - bc) Each value to be entered in a unit must be a whole number (e.g. number of suppliers, number of incidents, number of procedures).
 - bd) Percentages: to be given to two decimal places.
 - be) Tonnes: to be given to two decimal places.

- bf) Hectares: the land used should be given in hectares, in accordance with the Land Register, to the nearest ten thousandth.
 - bg) Litres: to be given in whole litres.
 - bh) Water consumption: to be given in m³.
 - bi) Energy consumption data for each category shall be provided in the following units:
 - electricity consumption: kwh,
 - district heating: MJ,
 - natural gas: m³,
 - other, including own energy production: J.
 - c) Free text answers: may include free-form text field answers and bulleted lists marked by letters for specific questions.
6. Column H (“Explanation”) gives the background to each question and helps you to answer it.
 7. Column I (“Logical link”) shows whether the answer to the question is conditional on the fulfilment of a prior logical condition. If the logical precondition is not met, the answer can be left blank.
 8. Columns J to M (“MICRO”, “SMALL”, “MEDIUM”, “LARGE”) indicate the categories of enterprises. The Recommendation allows for differentiation of the number of questions in the questionnaire along the categories of enterprises defined here. The financial institution may also decide to use additional questions, including those for enterprises in the larger category of enterprises, in addition to the minimum number of questions for each category.
 - a) Micro-enterprise: the term as defined in Section 3(3) of Act XXXIV of 2004 on Small and Medium-Sized Enterprises and Support for their Development (hereinafter: the “SME Act”).
 - b) Small enterprise: the term as defined in Section 3(2) of the SME Act.
 - c) Medium-sized enterprise: the term as defined in Section 3(1) of the SME Act.
 - d) Large enterprise: any other enterprise that is not a micro, small or medium-sized enterprise.
 9. Columns N to O (“ESG reporting question”, “ESG reporting match”) show the relationship of each question to the questions of the Chairman of the Supervisory Authority of Regulatory Affairs listed in Annex 1 of Regulation 13/2024 (VIII. 15.) of the Supervisory Authority of Regulatory Affairs.