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# EACB position on selected actions of the EU new Strategy on Sustainable Finance

The co-operative banks model follows the principle that customers can become members of the bank, thereby having a stake in the business and having a say in the policies. The objective of co-operative banks is therefore not to maximize profits, but to serve their members, which is fundamentally different when compared to other banks. Thus, co-operative banks promote the social, environmental and economic wellbeing of the communities. They are a driver of sustainable growth, with 2,700 locally operating banks and 43,000 outlets serving 214 million customers, mainly consumers, SMEs and communities. Europe's co-operative banks represent 85 million members and 705,000 employees and have an average market share in Europe of 22%. Co-operative banks are engaged in sustainable finance and are key drivers for sustainable financing at the regional and local level. In many remote parts of Europe, they are the only access to finance for SMEs and households and the only player helping customers towards the transition path. From this perspective, the concept of a just transition is particularly important for the EACB members. The role of co-operative banks is achieving a green transition at local level by responding to customers' needs. Acting in favor of sustainable financing is in the very nature of co-operative banks whose mission is to accompany members and clients in the long-term.

Against this background, the EACB would like to provide comments on selected actions of the new EU Commission "strategy for financing the transition to a sustainable economy". In general, we would like to underline our support to the four-pillar approach: i) financing the transitions, ii) inclusiveness, iii) resilience and iv) global ambition. We welcome the focus on enabling economic actors across the economy to finance their transition plans and to reach environmental goals, whatever their starting point is. We also welcome the focus on Small and medium sized enterprises and retail clients as the key actors at the local level to enable the transition. From this perspective our detailed comments on selected actions of the Strategy are outlined below.

## I. Financing the transition of the real economy towards sustainability

The EACB considers the overall goal to **reward the intermediate steps to sustainability** as important. In particular, we support the new Sustainable Finance Strategy Action 1 (b) that **suggests an extension of the EU Taxonomy framework to recognise transition efforts.** According to EACB Members this is a very important step for the full achievement of the sustainable finance framework. It shall however be formulated so to facilitate the identification of the **intermediate steps** and not discourage them. It should set **pathways that are simple to apply**. We believe that the concept of a red taxonomy risks to stigmatizes sectors that are currently still playing an important part in supplying people with goods and services. Thus, we have reservations on it. Indeed, the notion of "significantly harmful" or red taxonomy could lead to wrong perception focusing on the static vision instead of the dynamic forward-looking


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approach. We **recommend a more dynamic and positive formula** that defines "different levels of transition".

Such a new framework should properly incentivize companies to improve the environmental performance. **All industries and sectors should be given the chance to adapt their business models through credible decarbonisation plans via a staged approach**. The framework shall be workable and easy. At the same time consistency and comprehensibility shall be granted in the context of the overall transparency framework being implemented (i.e. SFDR, TR, Ecolabels).

The EACB also supports Action 1 (e) whereby the EU Commission suggests **extending sustainable finance standards and labels that support financing the transition to sustainability**. New standards for emerging products such transition or sustainability-linked bonds or a general framework **for green transition labels are desirable. They would allow greater market certainty, transparency and could be beneficial to accompany the transformation of the real economy.** Current green labels and green standards are important but remain too narrow to stimulate the impact change. Beyond the transparency, the new "transition labels" would facilitate companies to clearly identify eligible "transition" projects to be financed.

## II. Towards a more inclusive sustainable finance framework

The EACB supports Action 2 (a) whereby the Commission aims **to empower retail investors and SMEs to access sustainable finance advisory services**. Due to their proximity to members, co-operative banks are aware of the challenges, and they make efforts for a sustainable economy. **Our banks take an active role in embarking the retail clients in the transition by promoting within their network, the distribution of services and investment or savings products in favour of sustainable development**. Our branches are active on the national and regional level but also via green financing and investing, at the international level. Co-operative banks have developed expertise in green project financing, green savings, green loans and mortgages or in mobilising financing towards responsible projects.

For this reason, we support the EU Commission's intention **to achieve definitions for green retail loans, green real estate loans and energy efficiency real estate loans**. While the EACB supports the proposal of the Commission to create a narrow label for energy-efficient real estate loans and loans for the renovation of a residential immovable property, **we caution that this shall be in line with the latest criteria developed in the taxonomy regulation**. In general, the understanding of green retail loans and green or energy efficiency real estate loans should be in line with the EU Taxonomy. However, the requirement to meet the DNSH criteria for assessing retail products' alignment with the taxonomy is a significant challenge which may greatly reduce the capacity to identify eligible assets. Moreover, we support the intention to explore measures that take into account how enhanced energy efficiency of a real estate loan's collateral can be considered as increasing property values, as this could be a good incentive on the transition path.

The EACB also supports the EU Commission's aim to fill **the gap of knowledge in sustainable** finance for retail investors, we believe that **Member States should cooperate to integrate sustainable finance as part of existing subjects in citizens' education at school**, possibly in the context of a wider effort to raise awareness about climate action, sustainability and financial literacy. In this context, we are also curious to see what efforts the European Commission shall be taking as part of this action 2a, to achieve sustainability expertise and qualification of financial advisors in line with the Capital Markets Union action plan. Moreover, we believe it is important that **Member States provide sustainability advisory services in particular to SMEs to help them identify climate mitigation or adaptation measures as well as other environmental objectives. EU or EIB assistance funds shall be also deployed to ensure that ones the environmental targets are identified, financial support can followsuit.**.

We support the proposal foreseen in the Strategy under Action 2.b whereby the Commission will explore how to leverage the opportunities digital technologies offer for sustainable finance. In particular, the EACB calls **for a fast progress on ESAP** (European Singe Access Point) to have in its scope both financial and non-financial information, as getting updated financial and non-financial data on companies is key for the proper functioning of the banking sector from a risk management perspective. ESAP should allow for an easy and cost-efficient access to this information. The EACB also **supports** the creation of **a green deal data hub** that plugs under the same roof the large amount of information already existing such as Environmental Accounting information from Member States, aggregated industries GHG emission data or climate monitoring data (heat maps, flooding or erosion risk area, droughts, hurricanes, vulnerable territories or sectors). This information is today scattered or not publicly available under a unified system (for example it would be important to have a unionwide database for energy performance certificates). For physical risks it would be important to publicly provide such data in a consistent manner throughout the European Union for example unified heatmaps would allow financial and non-financial undertakings a unified detection of climate risks and to increase climate resilience.

## III. Improving the financial sector's resilience and contribution to sustainability: the double materiality perspective

We support the overall aim **to consistently integrate sustainability risks in the prudential domain (micro and macro) to safeguard financial stability.** We believe that it is important to build upon established concepts such as risks to capital and liquidity and the overall governance framework, and that ESG risks are integrated by considering them as risk factors influencing established risk categories but not as separate risk category. According to a recent report[1], co-operative banks have shown higher than average capitalization, good ROE and ROA even during tough times, and have consistently contributed to the real economy. These features should be adequately considered as "natural" risk mitigants in particular when supervisors assess the social and governance factors and risks that affect institutions.

Concerning **physical climate risks** public authorities shall provide financial and non financial companies with risk scenarios for the different national and regional situations as "generally accepted risk standards". This ensures a unified understanding of physical climate risks. Concerning the development of **climate stress tests** exercises (especially bottom-up ones), there will be a clear need to have methodologies that can be understood and easily implemented by institutions, particularly in the first instances. At the same time these methodologies should

[1] The fourth report of the Fondazione Etica for GABV (Global alliance for Banking on Values) titled 'Ethical and Sustainable Finance in Europe', 2021.

be proportionate also to the size and business model of the institutions. We also see that it would be premature to link capital measures to the results of climate stress tests.

Looking at **climate risk**, given the interlinks between the physical and transition risk dimensions, we would also underline that bank should not be alone to shoulder the burden to stimulate an orderly transition of economic agents. While customers' engagement is primal, and cooperative banks are by their very nature committed to accompany their members/customers on a long-term relationship, this engagement to support transition has its limits. Banks might be able to encourage customers, but not oblige them.

The **lack of clients' data is a big issue** in particular for co-operative banks whose portfolios are mainly formed by SMEs. We call regulators to ensure that effective tools are developed to improve the standardisation and availability of climate related data. The new CSRD (Corporate Sustainability Reporting Directive) and the current EFARG' work on EU Sustainability Standards are steps in the right directions, however **we need simplified tools for SMEs**.

In general, we recommend to take the right level of granularity in consideration and an adequate timeline for implementation. Finally, with regard to the development of macroprudential tools and targeting of systemic risk, we stress the need to keep a framework that is simple and understandable and avoid any overlap with existing measures or double counting of risks.

In terms or sustainability reporting, we acknowledge that the CSRD (Corporate Sustainability reporting) proposal and the accompanying standard to be developed by EFRAG would require financial institutions including banks, investors and insurers to disclose their transition **and decarbonization** plans and how they plan on reducing their environmental footprint. In this context, we highlight the need to **establish methodologies and to ensure companies engagement**. Indeed, for financial institutions it is crucial to receive **decarbonization plans from the underlying companies**. The reporting obligation primary relies on the client, and financial institution should receive the information in a timely, easy and cost-effective way. This could be made attractive for the client by introducing benefits when improvement on independently set criteria has been met, depending any institution's approach.

**For smaller clients** (the majority of cooperative banks clients) we need a simpler approach than the investment based/ listed approach so far. At **least today, it will not be feasible to ask all individual SMEs for Paris Alignment plans.** But as a group, SMEs, constitute a significant part of the economy and it is important that they are incentivized to join the transition journey. One way could be to incentivize them to use capital/ loans to finance measures identified in the economic sectors they operate in as key measures to improve sustainability performance. Simplified tools to identify those measures , set targets and track performance would be necessary. It would be important that auditors/ accountants verify progress. To make it practical, proportionate reporting should be organised.

The EACB will be interested to follow the consultation announced under action 4c to investigate the functioning of the ESG ratings and research market. The methodologies used will be instrumental towards ensuring integrity of such information. However, our main **support for this action is with respect to improvement of the availability and transparency of ESG market research and ratings**. Therefore, we see this action closely linked to action 2b in which the Commission wishes to provide sustainability finance related data spaces within the EU. We express our support for such data spaces for both financial and non-financial data, such as in the case of ESAP under the Capital Markets Union Action Plan. If ESG rating agencies would make use of such data for commercial purposes of provides ESG research and ratings then we would advocate that a fee is applied for such users. An investor using such data space can then compare the data used by the rating agencies from the data space and make their own assessments. This would surely improve the transparency of ESG research and ratings.

## IV. Fostering global ambition

According to previous positions, the **EACB supports convergency around the taxonomy and the other pieces of regulation of the sustainable finance framework**. Climate change is a global challenge that requires internationally aligned efforts. International forums are providing an important framework to address the fight against climate change, step up commitments and orient the financial system, such as United Nations Framework Convention on Climate Change or the Network for Greening the Financial System (NGFS) and International Platform for Sustainable Finance (IPSF). However, **further convergence is necessary in particular in global equivalence of green taxonomies, climate risk methodologies, forthcoming sustainability reporting standards and transparency requirements**. It is particularly important that reporting standards at global level are consistent to avoid unlevel playing field for European banks and companies and to support access to ESG data of our non-EU clients. The EU has been leading in terms of sustainability reporting regulation and we count on the EU institutions and national authorities to promote the double materiality principle at global level.

The EACB and all European Cooperative banks look forward to continue the fruitfull dialogue with the Commission on the implementation of the different legislative proposals that will be elaborating following the main actions of the new strategy.

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