European Financial Markets Lawyers Group

18 April 2024

Mr José Manuel Campa

Chairperson

European Banking Authority

Re: EBA Consultation on the draft Guidelines on the management of ESG risks (EBA/CP/2024/02)

Dear Mr Campa,

The European Financial Markets Lawyers Group (EFMLG)[1] welcomes the opportunity to comment on the EBA's Consultation paper on the draft Guidelines on the management of ESG risks (EBA/CP/2024/02) and offers its response to a good number of selected questions raised in the paper.[2]

The EFMLG remains at your disposal for any assistance or support you may need on this matter.

Introduction

The EFMLG very much welcomes the draft Guidelines, a necessary exercise at the intersection between two fundamental pillars of banking in the EU in our time: ESG risk management, on the one side, and the contribution of the EU banking sector to the environmental, social and governance agenda of the EU for the benefit of the EU citizens, on the other. It is also clear to all of us that environmental considerations include climate change and the protection of nature.

The draft Guidelines cover a risk management exercise, which is one of the basic bank management exercises of any EU bank. While the EFMLG absolutely supports the EU's agenda and calendar on ESG, including that of the EBA, the EFMLG provides some good few comments in this Consultation response on the pure risk management side of this exercise for the consideration of the EBA.

[1] The EFMLG is a group of senior legal experts from the EU banking sector dedicated to making analysis and undertaking initiatives intended to foster the harmonisation of laws and market practices and facilitate the integration of financial markets in Europe. The members of the Group are selected based on their personal experience amongst lawyers of major credit institutions based in the EU active in the European financial markets. The Group is hosted by the European Central Bank. http://www.efmlg.org/

[2] This Consultation response of the EFMLG has benefitted from the contributions of an EFMLG Task Force consisting of the following EFMLG members:
Dr. Dimitris Tsibanoulis (Chair of the Task Force), Asmaa Cheikh and Pedro Ferreira Malaquias.
Additionally, Feli Tsibanoulis (Tsibanoulis & Partners), Frida Mekoui (Société Générale) and Prof. Dr. Tobias Peylo (Kempten University) have contributed.
Inigo Arruga Oleaga (EFMLG member and ECB Legal Services) and Andre Wang (ECB Legal Services) have provided support as Secretariat to the EFMLG Task Force.

The EFMLG is confident that the successful finalisation of the draft Guidelines will contribute to the advancement of the EU's agenda and calendar on ESG while preserving appropriate risk management practices inherent to EU banking.

Question 1: Do you have comments on the EBA's understanding of the plans required by Article 76(2) of the CRD, including the definition provided in paragraph 17 and the articulation of these plans with other EU requirements in particular under CSRD and the draft CSDDD?

The EBA's definition is clear and consistent with CRD VI. Unlike other transition plans, CRD-based plans are considered risk management plans rather than plans demonstrating banks' alignment with transition objectives. The flexibility granted by the EBA in the determination of plans allows institutions to adapt according to their circumstances. However, the implementation of CSRD transition plans is still at an early stage and requires more time to determine the optimal delineation/interaction between CSRD plans and CRD plans.

The EBA also rightly emphasizes the importance of coherence between the measures and objectives set out in these different frameworks.

Question 2: Do you have comments on the proportionality approach taken by the EBA for these guidelines?

The paper explains well why the proportionality approach is implemented in such a way that smaller institutions should also comply with the requirements on ESG risk management. Paragraph 21, in particular, rightly explains that ESG risks do not stop at smaller institutions.

We would like to support this aspect and add that, in the case of ESG risks, even a particularly pronounced relevance for smaller institutions can be considered. Smaller institutions may have even higher and less diversified ESG risks than larger ones.[3] Hence, implementing the principle of proportionality in the form of reducing or suspending supervisory requirements would lead to some risks being disregarded and ultimately endanger the institutions.

At the same time, it must be emphasized that smaller institutions not only have fewer resources and capacities for implementing ESG risk management, but also that the necessary internal expertise cannot yet be assumed in the required breadth and depth in most regions of the EU.

[3] On the one hand, smaller institutions generally have a significantly less differentiated loan and investment portfolio and usually have a regionally limited catchment area when granting loans, which inevitably leads to sector concentrations depending on the regional industry structure. In addition, smaller institutions are usually more involved in agriculture than larger institutions due to the small-scale structure of this sector, and since agriculture has particularly high ESG risks, especially with regard to climate risks, these are transferred to loan portfolios of smaller institutions.

Therefore, if these institutions must fulfil the same ESG requirements as the larger institutions, this inevitably leads to an overload, which necessarily calls into question the quality of the implementation solutions. This, in turn, jeopardizes the functionality of the transformation and adaptation financing of smaller borrowers in vulnerable sectors. Consequently, an insufficient ESG risk management implementation constitutes an impediment to lending and would end up running counter to the objectives of the EU Taxonomy and the Green Deal.

In order to take both aspects into account, we would propose an approach that is currently unusual in European banking supervision but is used in other jurisdictions.

The tried-and-tested approach of European banking supervision can be roughly outlined as a "demand-based approach", in which the objectives are explained to the institutions, but the path to their implementation (in this specific case, the measurement and management of ESG risks) must be taken largely independently by the institutions. The result must be presented, and its meaningfulness justified by the institution, but only after a reasonable period does the supervisory authority communicate which of the solutions emerging from this approach can be established as "best practice".[4]

As another possible model, we would like to recommend a "solution-based approach". Here, the tools for assessment and for the management of ESG risks are developed and explained, even trained and then published by the supervisory authority.[5] In this sense, the proposal would be to reinterpret the application of the principle of proportionality in the area of ESG risk by making the rules applicable to all, but providing a basic set of free tools with training materials for the smaller institutions so that they can implement high-quality ESG risk management practices despite limited capacities and financial resources.

Question 3: Do you have comments on the approach taken by the EBA regarding the consideration of, respectively, climate, environmental, and social and governance risks? Based on your experience, do you see a need for further guidance on how to handle interactions between various types of risks (e.g. climate versus biodiversity, or E versus S and/or G) from a risk management perspective? If yes, please elaborate and provide suggestions.

[4] This approach has a lot going for it, particularly because it encourages creativity in this new field and allows new solutions to emerge. However, it is much easier for large institutions (which, as can be observed, rely heavily for this purpose on expensive management consultancies) than for small institutions.

[5] For example, as consistently implemented by the National Bank of Georgia (NBG) through the "ESG Risk Radar" and "ESG Guidelines" (https://nbg.gov.ge/en/page/esg-guidelines). Here, even extremely progressive approaches such as a social taxonomy and biodiversity risks are considered in the implementation.
The Georgian banks still have the option of using other instruments to achieve the supervisory objectives and requirements, but they can also fall back on these "standard solutions" implemented by the NBG and do not have to develop solutions themselves or buy them for large amounts of money.

We support the EBA's adaptation of a sequenced approach, as already comprehensively set out in its Roadmap on Sustainable Finance (EBA/REP/2022/30), superseding the EBA 2019 Action Plan on Sustainable Finance. This approach aims at a gradual and pragmatic transition towards sustainable finance and ensures that the EBA capitalizes on recent initiatives and advances its efforts where there is groundwork to build on.

While acknowledging that the different risks may be interconnected, we further stand behind differentiating between climate, environmental, and social and governance risks. Employing this differentiated approach takes into account the different inherent characteristics of each category of risk (e.g., whether it has the potential of posing a systemic risk to the financial system, or whether and to what extent it can be quantified) and reflects the legislative and regulatory initiatives and the progress achieved by institutions and supervisors over the recent years.

Finally, we propose that institutions may rely on the public information disclosed by their clients by virtue of the regulatory framework in force from time to time. In this regard, the recent process carried out to calculate the Green Asset Ratio seems to have shown that many clients are reluctant to provide additional information, with an impact on the quality of the output obtained.

Question 4: Do you have comments on the materiality assessment to be performed by institutions?

From our point of view, it would be relevant to have more regulatory guidance on the following:

(i) Methodologies to determine sensitive exposures. In particular, what are the correlations that should be considered between ESG risk arising from the operations, transactions, or assets being financed and the probability of default/non-compliance related to the borrower?

(ii) The type of scenarios and time-horizons to use, both for transition and physical risks. Notwithstanding paragraph 13, it is not sufficiently clear whether the risk assessment should have specific time-horizon criteria regarding the founding scenarios, or if different scenarios should be considered across the short-, medium-, and long-term horizons. Likewise, it is not sufficiently clear either how to conjugate the materiality of such ESG risks to institutions and the negative externalities of such scenarios from an environmental / social perspective. In the event where a certain ESG risk poses little material threat to the institutions but potentially carries considerable harm environmentally / socially, should such harm be considered for assessment purposes, and, if so, how?

(iii) The criteria for material transmission to "traditional" risk categories. Further detail should be provided on whether the execution of the reference methodology should be formally in line with the internal mechanisms already established regarding ICAAP (vis a vis a similar organic structure / functions attribution). Or whether this execution / integration

refers only to the materiality of such ICAAP mechanisms (e.g., in terms of identifying services / areas on which risk exposures are more likely to occur). Additionally, it should be further clarified how to entangle these material assessments with other materiality assessments conducted by institutions, i.e., whether one or the other (or both) should cross-reflect the risk identified in each assessment.

(iv) The points above are especially relevant for the other ESG risks, for which there is a conspicuous lack of data, methodological approaches, scenarios, among other crucial features for a sound materiality assessment. Perhaps further guidance could be included on how to collect such data from customers or public authorities alike. For instance, how are public policy risks to be considered – is it at government level? Should this analysis be based on announced government programs or state budget laws? Could elections (and potential change of government) be considered as risk factors?

Furthermore, we consider that it would be useful to have a centrally provided database for physical risks events. This could either be promoted between member state regulators, allowing for the cross-sharing of data and information regarding geographical-specific physical risk events, or by each member state regulator locally, in coordination with local ESG authorities and associations. We believe that a centralised platform among member states would foster a level playing field in managing ESG risks. It would, at the same time, harmonise the approach to ESG criteria, particularly focused on climate, environmental, and energy-related factors across EU member states, and bolster the internal market within the banking sector.

Finally, it would seem appropriate that the EBA clarifies that, when referring to the quantitative view to capture potential impacts of ESG risks, it should not necessarily be a capital or P/L impact – as stated in previous regulatory guidance. Rather, the quantitative view may be supported by the determination of the amounts of exposures and revenues that are significantly exposed to the said risks.

Question 5: Do you agree with the specification of a minimum set of exposures to be considered as materially exposed to environmental transition risk as per paragraphs 16 and 17, and with the reference to the EU taxonomy as a proxy for supporting justification of non-materiality? Do you think the guidelines should provide similar requirements for the materiality assessment of physical risks, social risks and governance risks? If yes, please elaborate and provide suggestions.

We agree with the EBA proposal regarding transition risks (paragraphs 16 and 17). However, while we agree that the interests and processes necessary for the execution of these specifications are adequate and proportionate, when it comes to physical and social risks (or even governance) they are always specific to the assets (and may stem from complex transmission

channels, as the ones present, for instance, in the companies' value chains, which excludes banking and finance institutions).

For this reason, it is not proportionate to determine a standardized expectation in terms of the risk exposure or ideal approach for mitigation, as it would correspond to imposing, by other legal means, a solution close to that established and excluded in the on-going draft CSDDD for banking and finance institutions (*regulated financial undertakings* in the terminology of the CSDDD) for the downstream part of their activity, since, under the draft Guidelines, these institutions would be required to apply EU Taxonomy criteria (involving the necessity to evaluate companies' value chains – thus the comparison with the CSDDD) regarding social, governance and physical risks for the downstream part of their activity.

Hence, this demand included in the draft Guidelines (and seemingly contrary to the draft CSDDD) may excessively burden institutions regarding the implementation, execution, and maintenance of a mechanism to analyse potential exclusions, by application of EU Taxonomy criteria, of certain risks from the "presumption" set out in paragraph 16. Additionally, given the embryonic phase in which institutions find themselves regarding the implementation of these methodologies, we believe that the extension of these requirements for the materiality assessment of physical risks, social risks and governance risks could face the obstacle of affecting the adequate, efficient and correct implementation of such methodologies, given their complexity regarding these risks.

As such, perhaps the EBA could eventually consider this extension as a next-step policy, giving institutions time to create well-routined processes and procedures and to become familiar with the implementation and creation of these methodologies in a sectorial way.

Question 6: Do you have comments on the data processes that institutions should have in place with regard to ESG risks?

The aspects presented are important and provide a coherent framework.

Clearly, an important note on this topic is the lack of data. This remains the main challenge that institutions face regarding ESG. The information referenced in the Consultation paper is mainly available from larger customers (especially those subject to CSRD reporting requirements) and will be difficult to obtain for smaller lending businesses. The questionnaires mentioned are not necessarily helpful here either, as small companies often do not even have the basic information. This causes a problem because information procurement will therefore be the most time-consuming where the credit volumes are the smallest and the processes are already at the profitability limit.

One conceivable variant would therefore be to differentiate the data process more strongly between information that focuses more on the framework conditions and the sector, and

information that is customer specific. This two-dimensional view is taken up again in detail in the answer to question 10 below, where the differentiation proposed along the materiality concept according to outside-in and inside-out perspectives would naturally also have an impact on the data process.

On this basis, it would be conceivable to analyse only the sector risks for small-scale bank lending business and also to set these risks as the standard for those customers whose size (whereby both the size of the company and the volume of the loan can apply) does not justify a more detailed analysis with questionnaires.

With regard to the sector-level ESG risk assessment, reference could also be made to the portfolio analysis with "heat maps", which the Bank for International Settlement recommends in their take on ESG risk as well.

One final aspect is also worth being considered. Public authorities can support the overall ESG exercise including the demands that the ESG agenda puts on credit institutions by making accessible public data bases with, *inter alia*, emissions data, asset localization and insurance coverage.

Question 7: Do you have comments on the measurement and assessment principles?

Regarding the obligation to map exposures and/or portfolios according to ESG risk drivers, and any concentration within or between them, this is a new obligation that requires, beforehand, a level of maturity in the identification and assessment of ESG risks (not only climate-related) in order to be able to target and calibrate ESG risk concentration.

While the mapping of ESG risk concentration seems to be relevant in the development of an ESG risks management framework, it should be highlighted that ESG risk as such (i) has yet not been defined in regulation and (ii) implies first the identification and evaluation of ESG risks themselves. Hence, we call for a gradual approach in putting in place such a framework. Also, in the context of Pillar 2, we understand that the EBA will, at the same time, launch work on the development of exposure-based metrics for the quantification of environment-related concentration risks. In that case, it would be critical to ensure a consistent approach in terms of timeline to avoid disruption by changing methodologies.

Question 9: Do you have comments on the portfolio alignment methodologies, including the reference to the IEA net zero scenario? Should the guidelines provide further details on the specific scenarios and/or climate portfolio alignment methodologies that institutions should use? If yes, please elaborate and provide suggestions.

The presentation in EBA's Consultation paper is consistent and coherent. Hence, we do not refer to the content listed, but rather to another aspect that has not yet been addressed. From a perspective of classification and structuring, we focus primarily on ESG impact of the portfolio, which is very important from the political perspective of a desired transformation.

According to a three-dimensional methodology in which sustainable finance is categorized according to values / responsibility, action / impact and protection / risk management, the entire presentation can be assigned to the second perspective (action / impact), where it proves to be both important and useful.

However, the portfolio view from the protection / risk management perspective should be further elaborated. Indeed, this perspective would also be highly relevant as a higher-level instance of risk management at client level (which is discussed in detail in the EBA paper in the previous part). This perspective would especially allow relevant conclusions to be drawn on issues of diversification and mutual reinforcement of economic and ESG-related risks.

In this respect, a request to banks and financial institutions to aggregate risk concentrations and interdependencies at portfolio level and examine them using suitable methods (e.g. with regard to correlations between ESG risks including environmental risks etc. with conventional credit risks at sector level) would be extremely helpful and would fit well thematically in this portfolio context.

Question 10: Do you have comments on the ESG risks management principles?

The principles listed for ESG risk management in the Consultation paper are comprehensible, transparent, important, and correct. However, based on the experience of implementation in financial institutions, we believe it would be important to emphasize two aspects even more clearly.

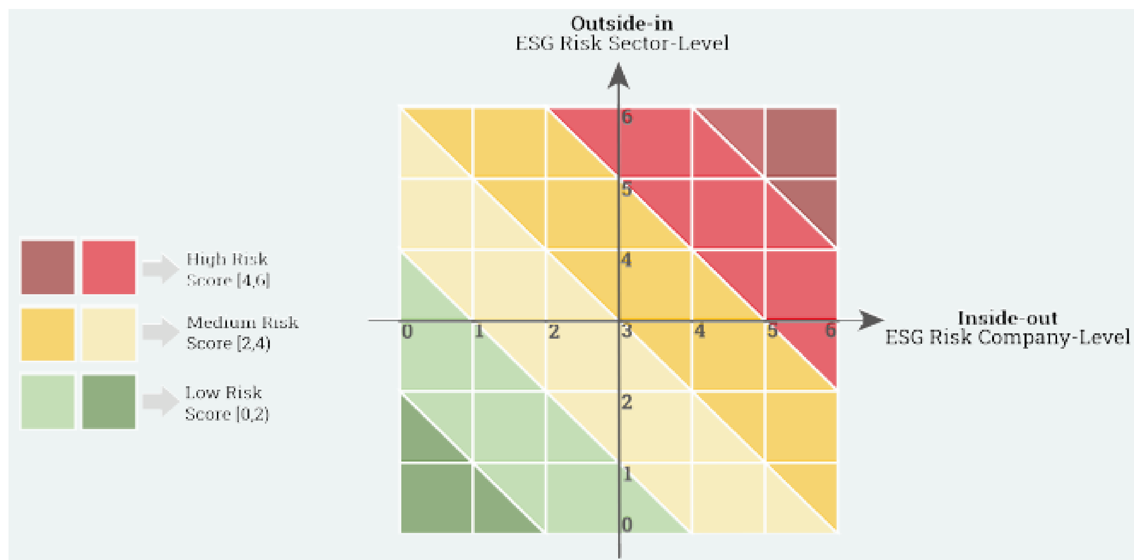
The first aspect takes into account that ESG risks are still incompletely understood in many credit institutions. For example, ESG sector scores may be used, and the risk situation of the borrower may be inferred directly from these scores. However, the challenges for industries and sectors - in the sense of double materiality - only act as "outside-in" framework conditions that affect the companies operating in them. However, the extent to which the companies are affected depends also on the individual strategies and positioning of the companies (and therefore the "inside-out" perspective) for a complete double materiality assessment. This latter inside-out perspective can be completely different from one company to the other and mean that, while belonging to the same sector and being subject in principle, to the same outside-in framework conditions, adapted

or transformed companies even assess the same ESG factors as opportunities that represent risks for their non-adapted competitors.[6]

If banks do not understand this duality of ESG risks and wrongly understand ESG risks one-dimensionally instead of as a matrix with two clearly separated axes, this may lead to mismanagement, especially when rigid ESG risk limits are applied. When reading the Taxonomy, it is clear that the greatest need for transition and adaptation exists in those sectors that have particularly pronounced ESG risks. If ESG risk is understood in a one-dimensional way, this could, in the worst case, jeopardize transition financing.

In this sense, it would be useful and important to explicitly point out this duality in the principles and to emphasize that ESG risks only become transparent from the combination of sector assessment and individual assessment, and that limits and thresholds in particular should take this differentiated view into account with a combined score.

The ESG guidelines of the National Bank of Georgia can be used as an example to illustrate this:



Source: ESG Guidelines, National Bank of Georgia 2023, Page 23

The second important aspect that could be emphasized at this point is the usefulness of developing dedicated ESG ratings on the individual customer level that incorporate both perspectives (outside-in and inside-out) and should not be mixed with conventional economic ratings (which are based on other criteria).

[6] A classic example of this are automotive companies that have the ESG risk relating to the announced end of the combustion engine in mind but can turn to the opportunities of this market transformation by focusing on electromobility.

It would also be a good opportunity to emphasize that ESG risk management also differs from conventional risk management in terms of perspective. While looking to the past and using statistical ratios is best practice for economic assessment, ESG is very much forward-looking and future-oriented and often has no histories to rely on. Emphasizing this would also introduce the aspect of caution with regard to the sometimes-excessive use of statistical data in ESG risk assessments, which inevitably ignores important future aspects due to the lack of statistical data.

Question 11: Do you have comments on section 5.2 – consideration of ESG risks in strategies and business models?

This section of the Consultation paper provides useful clarifications on the inclusion of ESG risks in strategies.

However, insofar as the processes on other environmental, social and governance issues are much less mature than for the climate, we recommend that a gradual approach be put in place within the framework of paragraph (c).

Similarly, with regard to paragraph (d), the list of metrics to be taken into account seems too rigid at a stage when institutions are defining their system. We recommend the list to be illustrative.

In addition, the list of metrics 6.3.44 refers to absolute and intensity emissions. However, the targets that the banks have set in the NZBA methodology are expressed for some sectors in absolute terms while for others in terms of intensity per unit of production. Indeed, emission reduction targets in absolute terms are used for exposures to sectors for which a reduction in emissions can only be achieved by reducing exposure (i.e., sectors that do not have the capacity to improve, such as fossil fuels). On the other hand, for sectors for which technological developments will allow a reduction in emissions (e.g., cement based on green technology, electric cars), banks will not necessarily decrease their exposure to reduce these emissions. In that case, they will define their targets in terms of emissions per physical unit.

In other words, it would be useful to specify in the guidelines that the targets are expressed in absolute value or, alternatively, in intensity depending on the sectors considered.

Question 12: Do you have comments on section 5.3 – consideration of ESG risks in risk appetite?

We emphasize the importance of proportionality in risk reporting requirements for financial institutions. We recommend selecting only the most appropriate metrics for RAS to make it easier to understand and link to capital allocation.

In addition, it is stated that institutions should use forward-looking and backward-looking indicators appropriate to the complexity of the business, but institutions face challenges in terms of data availability to meet this requirement. Hence, backward-looking indicators should only be required when available and useful.

For large institutions, it is recommended to set measures and targets at the consolidated level to avoid undesirable effects and simplify the monitoring process.

Question 17: Do you have comments on section 5.8 – monitoring of ESG risks?

The Consultation paper aptly places emphasis on the significance of considering the different time horizons (short, medium and long term, including a time horizon of at least 10 years), which are relevant for managing and mitigating ESG risks, whilst highlighting the need for monitoring to take place on a continuous basis.

We would underline that, while some risks are indeed already evident and can be placed within the above-mentioned time horizons, other impacts could materialise over varying or yet unknown time horizons and especially climate-related impacts could worsen over time. The high degree of uncertainty around the timing and development of these risks suggests that institutions should take a dynamic approach to developing their risk management capacities.[7]

To that effect, institutions, their senior management, and the management body should be encouraged to take a long-term consideration of ESG-related financial risks and a proactive risk management approach. They should ensure that their internal reporting frameworks are adapted to the evolving landscape of material ESG issues and be incentivised to adopt a flexible approach and to shift their priorities so as to promptly address emerging ESG concerns.

Question 18: Do you have comments on the key principles set by the guidelines for plans in accordance with Article 76(2) of the CRD?

While reiterating the EFMLG support to the EU's and the EBA's ESG overall agenda and calendar, we thank the EBA for clarifying in the Consultation preamble that prudential transition plans do not require alignment with EU transition objectives.

[7] In this sense, we would refer to the process of "dynamic materiality", popularised by the World Economic Forum in 2020 (White Paper - Embracing the New Age of Materiality Harnessing the Pace of Change in ESG), and pertaining to the ever-changing definition of relevance or significance. In the realm of ESG risks, it acknowledges that the significance of specific environmental, social, or governance concerns may fluctuate, influenced by factors such as, indicatively, societal norms, regulatory changes, or market dynamics.

Indeed, while banks have made alignment commitments as part of their transition strategy, it is necessary for the prudential framework to maintain its objective and its function of ensuring financial stability.

Therefore, as interpretive issues have been raised, and as the draft Guidelines require institutions to use a portfolio alignment methodology for risk management, it would be useful to specify in the final Guidelines that:

(i) These Guidelines do not require banks to be fully aligned with EU transition objectives.
(ii) There is no requirement for institutions to reduce their emissions by 55% by 2030. Moreover, such a requirement would not make much sense for credit institutions, as they should increasingly finance the transition of emitting companies. This means that, temporarily, this transition financing will not systematically result in an absolute decrease in financed emissions (i.e., before the transition plan of the financed companies is effective). In fact, from the point of view of the EU's overall ESG agenda, what matters is that ESG-related financing by credit institutions becomes a major factor for the EU reaching its 2030 55% emission reduction and 2050 net zero objectives.

In this respect, it should also be noted that the draft Guidelines refer to emission targets in absolute value and in intensity. However, the targets that the banks have set in the NZBA methodology are expressed for some sectors in absolute terms while for others in terms of intensity per unit of production. This is particularly relevant where the sectors in question are not suitable for absolute targets set and enforced by banks - for example, mortgage lending, steel, cement, aviation, shipping, or energy production. Therefore, it would be useful to have clear language throughout the Guidelines that the banks are free to choose the metric in intensity or absolute terms, as an alternative to each other, and not together.

Finally, we understand that the ECB will issue its own guidelines on transition plans. We encourage regulators and supervisors to work together to alleviate the burden to the credit institutions on the subject of transition plans, as well as to foster the development of international standards to allow the financial sector to transition at the same pace. Institutions would also favour expecting the completion of international standards on these matters, notably at the Basel Committee level, as requested by CRR3.

Question 19: Do you have comments on the section on governance of plans required by the CRD?

According to par. 85 of the Consultation paper, the draft Guidelines expect that financial institutions will assess the soundness and credibility of the counterparties' transition plans. While reiterating the support of the EFMLG to the EU's ESG agenda, we do not believe that it is

appropriate to require institutions to assess the soundness and public credibility of their counterparties' transition plans. Banks should not be in charge of this "official" assessment, beyond the internal risk assessment made by them. In principle, within a prudential framework, to which the Guidelines belong, no obligations should be imposed on credit institutions beyond those arising from prudent risk management obligations.

Question 22: Do you have comments on section 6.5 – transition planning?

Banks are involved in a multitude of initiatives to integrate ESG risks into their risk management systems. We believe that the content of the Guidelines should be sufficiently open, flexible and principle-based to avoid the invalidation of some solutions that institutions have been implementing for years and to avoid institutions incurring duplicate and unnecessary costs.

Within such principles, we support the EBA's general perspective about the importance of transition planning-related information. What could be contemplated is for the collection, verification and further analysis that this perspective extends beyond individual entities and encompass a collective perspective. A collaborative effort could ensure that assessments are grounded in shared information, data, and standardised criteria, principles, and procedures. Such alignment fosters objectivity, enhances service quality, and enables cost-effectiveness in serving business clients.

We hold the viewpoint that, to ensure the realistic achievement of these goals, the establishment of a centralised interbank ESG platform for the collection and assessment of ESG-related data would be imperative. Recognising that not all institutions possess the requisite capacity due to potentially high transaction costs, such a centralised platform would serve to alleviate these challenges.

Moreover, centralising this process would also guarantee the accuracy and integrity of the collected data. The initial fundamental evaluation would be conducted by the platform, providing a foundation for individual institutions to assess the ESG data of their counterparties or potential counterparties, each according to their respective methodologies. At a subsequent phase, it could be, in our view, feasible to establish a scoring mechanism on the centralised platform in relation to each individual counterparty.

Thank you for your attention.

Yours faithfully,

Fernando Conlledo,

Vice Chairman of the EFMLG