

Position Paper

EBA consultation on draft ITS on Pillar disclosures on ESG risk

Verband Deutscher Bürgschaftsbanken e.V. / Association of German Guarantee Banks

Schützenstraße 6a / Rue Jacques de Lalaing 4

D-10117 Berlin / B-1040 Brussels

Email: info@vdb-info.de

EU Transparency Register No. 85252491441-36

I. Introductory remarks

The German guarantee banks provide guarantees to finance promising projects of small and medium-sized enterprises in the commercial sector and the liberal professions. The guarantees granted constitute fully-fledged collateral for all house banks and reduce their capital requirements. The activities of the guarantee banks are made possible by the partial state counter-guarantees. The focus is on the promotion and preservation of the German SME sector. In their structure and objectives, the guarantee banks are similar to state development banks. In addition to a prohibition of competition, this means in particular that the activities of the guarantee banks are not profit-oriented and there are no dividend payouts. Furthermore, the guarantee banks are exempt from corporate income tax according to the German *KStG*. The German guarantee banks are not credit institutions in the sense of the CRR, but are included in the scope of the German *KWG*. Thus, the guarantee banks indirectly fall under the scope of the CRR - with exceptions - due to national legislation.

II. Main points

- The **Green Asset Ratio and FinGuar KPI in their current form are not adequate** for small financial institutions and their SME clients
- **Non-listed SMEs should be excluded** from the scope of the KPIs, at least until 2025
- There cannot be any **retroactive reporting of the stock** for periods before 2023 (fiscal year of 2022)
- Any requirements to provide **forward-looking sustainability information** should be re-evaluated
- **Double-reporting** should be avoided wherever possible

III. Our position in detail

New KPIs not adequate for small institutions

The main proposed new sustainability reporting KPIs such as a Green Asset Ratio (GAR) and a FinGuar KPI are not expedient in their current form for the following reasons.

1. In their current version, the level of detail of the information requested is very high. Their complexity and granularity do not seem appropriate under cost-benefit-scrutiny. The KPIs introduce significant bureaucratic burden on small banks that are included in the scope of the CSRD. This **additional red tape adds significant hurdles to the financing of small and medium enterprises**, which is essential for a good functioning of the economy. In the case of guarantee banks, this administrative burden could impair their promotional mission.
2. While requiring a lot of effort to produce, **the GAR and the FinGuar KPIs do not give an accurate picture of how sustainable the financed projects of a financial institution actually are**. Not every financial product can easily be classified as “green” or “brown”, especially when it comes to products such as open credit lines. This questions the usefulness of such broad and simplistic indicators. In general, the Green Asset Ratio should only be seen as one component of an institution's sustainability activities. An institution must not be reduced to its green

asset ratio. The entirety of sustainability activities must not be pushed into the background. In addition, the green asset ratio does not reflect regional characteristics that have a strong impact on the business activities of individual institutions. The usefulness accuracy of the GAR and the FinGuar KPI is further reduced by the following problem:

3. Unlisted SMEs do not fall under the scope of the CSRD proposal and thus do not have to report extensive sustainability information. This is appropriate and justified, as these SMEs do not have the means nor the administrative capacity to comply with the complex taxonomy reporting obligations. The European Commission thus proposes to exclude these companies from the *numerator* of KPIs such as the GAR and FinGuar at least for three years. However, the fact that these companies would still be included in the *denominator* of those KPI would seriously disincentivise bigger financial institutions from financing *any* unlisted SMEs, because they would drag down the “performance” of their GAR by being regarded as “brown” assets. Smaller institutions (such as guarantee banks) that mostly finance SMEs would automatically get a GAR/FinGuar of (close to) zero. This distorts competition, misrepresents reality and further diminishes the credibility of these KPIs.

The scope needs tweaking

The solution to problems 1 and 3 is to **truly exclude small financing projects and/or small companies from the scope of the KPIs**, at least until the upcoming revision by the Commission in 2025, at which point we expect there to be a simplified sustainability reporting standard for SMEs. Concretely, this means that small exposures for which no sustainability data exists should be excluded from both the numerator *and* the denominator of the GAR and FinGuar. An alternative would be the introduction of minimum thresholds for taxonomy checks and GAR/FinGuar inclusion.

Such a solution would

- increase the validity of the GAR and FinGuar KPIs by decreasing distortions in their calculation,
- avoid overburdening small enterprises and small financial institutions with excessive and unproportional reporting requirements,
- provide more clarity and avoid (transitional) data availability problems for banks when it comes to SME exposures.

Additional comments

- We deem it important to clarify that the first reporting period that will need to be reported on according to the new rules is 2023 (fiscal year of 2022) and that there will be no **retroactive reporting of the stock** for periods before 2023 (fiscal year of 2022). Only exposures created during the financial year 2022 or later can be included in stock reporting, since there is no available data before that point.
- Any **forward-looking sustainability reporting** will be difficult to define, report and compare. The introduction of such reporting obligations should thus be re-evaluated by comparing potential benefits and usefulness with estimated costs, taking into account potential validity and comparability concerns.

- **Double-reporting should be avoided** wherever possible. Companies should only be asked to provide information once per financing transaction. In the case of German guarantee banks, any guarantee is always tied to a loan from a bank. If the client already reported all relevant sustainability information to the bank, it would not be proportionate to have to ask him to report it again to the guarantee bank.