European Federation of Building Societies
Fédération Européenne d'Epargne et de Crédit pour le Logement
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Feedback on the discussion paper on management and supervision of ESG risks for credit institutions and investment firms

The European Federation of Building Societies (EFBS) is an association of specialised credit institutions (Bausparkassen) promoting the financing of private homeownership. In compliance with the strict legal provisions, Bausparkassen offer long term contractual savings schemes to their customers with the aim to grant private mortgage financing. The contractual combination of savings and loans is similar to cooperative lending structures and is geared specifically to foster the build-up of private equity also for lower to mid income households.

We welcome the work of the European Banking Authority on ESG risks and their impact on credit institutions and the opportunity to share some additional comments regarding specific points.

Generally, we value the work of the EBA but stress the need for alignment with the work of the ECB and other international as well as national supervisors. Next to the alignment another key factor is the availability of reliable, adequate, recent, and low-cost data as these are inevitable prerequisites to develop adequate methodologies and the ability to assess and manage risk adequately. This should also be reflected in a phasing-in approach to ESG data and publication requirements, in particular for specialised retail banks such as Bausparkassen.

Beyond that, we appreciate the inclusion of proportionality in the discussion paper however, we believe that using only size for assessing proportionality should be avoided. The vulnerability of institutions in terms of ESG risks varies significantly according to an institution's business model (eg retail, wholesale, investments), relative size, internal organization and nature and complexity of its activities.

As providers of mortgages, we would like to draw specific attention to the limitations of a one-size-fits-all approach to ESG risk management. We would encourage differentiated requirements for the retail business vis-à-vis investment or wholesale business. Analyses in our member institutions resulted in clear specific ESG risks that affect the retail business, differently than other business models. Thus, having the same requirements for all business models regarding the incorporation of ESG risks into the risk management is not proportionate. There should either be an exclusion of the retail business or a smaller set of business model specific rules for it. The nature of retail business rather points to a product rather than a client-based approach and will heavily depend on availability and standardization of suitable data. The customer base is usually quite homogeneous with little differentiation in terms of ESG aspects. The key driver in retail should be around private housing and mortgages apart from private investments and to a lesser extent consumption. Private housing is a core driver for the climate footprint, so the mortgage business will require a specific risk and ESG analysis. Furthermore, in the case of Bausparkassen, the liabilities side will also warrant specific reviews, not so much from a climate perspective but rather from the inherent social aspects.

Another crucial point that needs to be looked at relates to double materiality as ESG risks do not form an own risk category. We understand the concept of double materiality as fundamental to understand ESG risks: the focus is not only on a client's / product's financial risks, but also on the impact of their activities on the environment and society. It needs to be avoided that the same risk counts double. If an ESG-related event leads to higher NPLs and their connected own funds obviously it must not affect the own funds in a second way through the additional calculation of ESG risks.