The **EU Federation for the Factoring and Commercial Finance Industry (EUF)** is the industry body and voice for the European factoring industry (EU transparency register no. 39275004756-35). The EUF’s members and partners consist of 13 national factoring and commercial finance associations (representing in the EU [in alphabetic order] Austria, Belgium, Croatia, the Czech Republic, Denmark, France, Germany, Greece, Italy, the Netherlands, Poland, Portugal and Spain) as well as the international factoring association FCI and the UK and Norway as partners.

It is in its role as the representative body of the European factoring and commercial finance industry that the **EUF wishes to provide input on the EBA Consultation on draft Guidelines on the management of ESG risks**

**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?**

Transition plans (TPs) seem a good tool to prepare an adequate and proportionate prudential assessment of ESG risks.

A gradual approach based on an ever growing understanding of ESG features should be privileged.

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

EUF supports the introduction of a proportionality principle, notably for the periodicity of review of ESG risks (at most every 2 years for small and non complex institutions – SNCIs). Similarly, the proportionality approach should also encompass specificities of different forms of financing.

**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.**

It is true that currently stronger focus is made on the “E” of ESG than on the “S” and “G”.

It is to be noted that a measure can be in favor of the environment while entailing some kind of prejudice for the society/economy and consequently to the “S” component of ESG.

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

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.

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

The collection of data related to ESG risks is currently no easy task since ESG reports and data are still not always available, and this should be considered accordingly when institutions are required to analyse and manage ESG risks. This also raises the question of harmonization of practices of ESG rating agencies.

To be efficient, the industry needs to know how to set the rules and how rating agencies work

Whereas legislation is still in process at EU level, the problem of evaluation of the ESG ratings by agencies remains, and lack of supervision of the obligation to report on the methodology of rating agencies results in a lack of transparency.

The methodology of rating agencies (which very often are global) has to be the same : an effective harmonization would ease the lives of institutions and help them to price the risk according to the ESG tenor of transactions.

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

Question 8: Do you have comments on the exposure-based methodology?

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.

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

Guidelines ask for tools in order to mitigate ESG risks. Among those tools, there is the engagement with counterparties aiming at improving their ESG risk profile.

Factors are committed to classify their clients from an ESG perspective. Alongside the ESG “pure players” and the clients for which the underlying asset is green or ESG, there are the other clients whose “ESG purity” is not clearcut, but for which factors have the idea that they are e.g. in the transition process and that the financial world should help and challenge these companies to follow a more ESG-compliant trajectory through the use of KPIs or other incentives, etc.

A lot of time has to be spent talking to the customer, who is challenged in its transition. On the basis of a plan (for example, announcing the stages of the transition in the balance sheet), an agreement could be reached to support the client towards the ESG target. This is all the more relevant as the factor only finances working capital: the factor must therefore be able to rely on the customer's information on e.g. a transition plan without having to assess its soundness, irrespective of the client’s size. (see § 42 a)

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

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

Question 13: Do you have comments on section 5.4 –consideration of ESG risks in internal culture, capabilities and controls?

**Question 14: Do you have comments on section 5.5 –consideration of ESG risks in ICAAP and ILAAP?**

As far as applicable, integration of ESG risks (to be checked on correct understanding) in ICAAP and ILAAP should only come after making progress on common understanding and reliability of data as a first step for a dedicated treatment of related exposures. From this perspective, transition plans, which the management bodies of institutions are required to draw up following CRR in order to deal with ESG risks, have full relevance.

A gradual and methodological approach is preferable over setting (fixed) parameters and metrics, in any case with specific consideration for institutions dedicated to providing short term funding.

Question 15: Do you have comments on section 5.6 –consideration of ESG risks in credit risk policies and procedures?

Question 16: Do you have comments on section 5.7 –consideration of ESG risks in policies and procedures for market, liquidity and funding, operational, reputational and concentration risks?

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

The wording for SNCIs is unclear/seems to be missing elements.

ESG risks should not be considered as a new risk category but as part of the already existing risk categories such as op risk or credit risk. Hence, ESG risks (and their monitoring) can and should be incorporated into these risk management elements, and in a proportionate manner, depending on the company’s/institution’s size, product/form of financing, etc. Prudential requirements are aimed at ensuring stability in the financial industry, whereas some of the (quite detailed and hence generally not proportionate) ESG risk metrics listed in para. 72 seem to be aimed more at limiting exposures to e.g. GHG-emission- prone businesses for political reasons regarding e.g. climate change. Supervisory and prudential requirements on ESG risks should not be mixed up with political ESG-related goals.

Para. 94 is assessed similarly (see question 20). Moreover, the limited availability of ESG related data (in particular from SMEs) needs to be taken into account better.

**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?**

Parag 76 provides for sequencing environment risks in short, medium and long term risks.

It is to be noted that factoring is dedicated only to short term funding.

Question 19: Do you have comments on section 6.2 –governance of plans required by the CRD?

**Question 20: Do you have comments on the metrics and targets to be used by institutions as part of the plans required by the CRD? Do you have suggestions for other alternative or additional metrics?**

The wording for SNCIs is unclear/seems to be missing elements.

As already stated in response to question 17, supervisory and prudential requirements on ESG risks should not be mixed up with political ESG-related goals. However, the indicators listed in para. 94 give the impression of the latter, e.g. by naming income shares « related to business with counterparties operating in sectors that highly contribute to climate change » as one of these indicators for setting targets. Moreover, the limited availability of ESG related data (in particular from SMEs) needs to be taken into account better.

Question 21: Do you have comments on the climate and environmental scenarios and pathways that institutions should define andselect as part of the plans required by the CRD?

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

**Question 23: Do you think the guidelines have the right level of granularity for the plans required by the CRD? In particular, do you think the guidelines should provide more detailed requirements?**

Things currently being as they are, a principle based approach should be privileged in order not to take a wrong direction and not to over-burden the institutions in reporting and monitoring.

One must keep in mind that European institutions currently submitted to CRR should not be put at a disadvantage vis-à-vis non EU global competitors who could be subject to looser regulation and use this advantage to unduly gain market shares – such a competitive disadvantage for European financial institutions is also disadvantageous to ESG compliance on a whole.

Question 24: Do you think the guidelines should provide a common format for the plans required by the CRD? What structure andtool, e.g. template, outline, or other, should be considered for such common format? What key aspects should be considered to ensure interoperability with other (e.g. CSRD) requirements?

Question 25 : Where applicable and if not covered in your previous answers, please describe the main challenges you identify for the implementation of these guidelines, and what changes or clarifications would help you to implement them

**Question 26 : Do you have other comments on the draft guidelines ?**

A number of factoring companies are already agile and responsive on ESG related developments and products : they are talking to their customers about them and they have trained in-house experts and are assessing sustainability related risks which affect their form of financing.

They have identified a positive reaction from the markets: customers spontaneously ask what can be done in terms of ESG.

However, even though the financial sector has clearly identified the sectors that still have the greatest transition or the most effort to make and are willing to take these on (and not just in the area of climate change), the real economy is still at the beginning of its transitioning process. Hence, ESG transition also in the financial sector remains a challenge, most likely over several years to come. This needs to be taken into consideration when drafting prudential or supervisory requirements regarding ESG risks.

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