

April 2026

Targeted Consultation on the Competitiveness of the EU Banking Sector

ESG aspects (questions 26 and 95 of the consultation)

Question 26: What factors are constraining the ability of EU banks to finance large-scale projects, including in the areas of digitalisation, climate transition and defence, compared to their international peers? In particular, to what extent do differences in profitability, cost structures, balance-sheet capacity, risk-appetite, scale, or regulatory and market conditions explain any observed gaps?

General comments

EU banks are certainly capable of financing large-scale projects, but various structural and regulatory factors make it difficult for them to take sizeable, riskier, or long-term positions on their balance sheets. This is especially true compared with their US and Asian peers – assuming these are the relevant benchmarks – particularly in the areas of digitalisation and the climate transition. The gap is not explained by a single factor, such as profitability, but by the interplay between profitability, cost of capital, balance sheet constraints, risk appetite, regulation and other factors. Despite progress, Europe still lacks sufficiently scaled and swiftly deployable public risk-sharing mechanisms, leaving many commercially promising transition projects outside banks' risk appetite due to immature technologies, uncertain revenue models, or incomplete policy frameworks.

In addition, the implementation of Basel III/IV-EU increases banks' risk-weighted assets (RWA). This also reduces their capacity for long-term project financing, which is generally RWA-intensive. Higher RWA increases the CET1 capital that banks must hold, which in turn has a direct, adverse impact on their ability to finance large-scale projects in the digital economy, climate transition and defence sectors. Also, the discretionary capital add-on used by supervisors also reduces the possibilities for banks to use a big part of their capital for economic growth.

On a positive note, both profitability and the cost of equity have improved over the past two years. European banks' profitability had long lagged that of US banks, but this has improved rapidly in

recent years. Valuations, however, have not fully caught up (cost-income ratios in Europe remain structurally higher than those of the most efficient US banks), suggesting a continued preference for low-risk activities, share buybacks and dividends, rather than large, complex project finance with long payback periods – precisely where market demand lies. Because capital remains relatively “expensive” in market terms, banks have a rational preference for short-term, standardised lending over large-scale transition financing with uncertain cash flows. This limits the flow of genuinely large, fully underwritten transactions, even when headline profitability appears strong.

In addition, EU budget and state-aid rules limit the extent to which national governments can directly de-risk or co-risk strategic projects. As a result, the number of bankable, high-quality projects remains relatively limited compared to the massive investment needs. This is particularly needed to ensure a just green transition. The EU’s annual investment needs for the green, digital, and defence transitions are estimated at around €1.2 trillion, with a public financing gap of more than €100 billion even under optimistic assumptions. This suggests that the current policy and guarantee frameworks enabling banks to scale up financing are still incomplete. Also, the Savings and Investments Union would help alleviate some of these constraints.

Climate transition

All generally applicable aspects can also be applied to climate transition projects. The planning uncertainty resulting from the current ESG backlash may, however, be potentially comparatively greater. Uncertainty significantly hinders investments and slows progress in the transition, as it puts companies into a “wait-and-see” mode and puts necessary investments on hold. Therefore, considering that many investments for transition are of a long-term nature, predictability and stability of the policies are key for investments to ensure that decarbonisation business models and investments are, and remain, economically viable.

The uncertainty regarding policies leads to a dual transition risk: transition risk stemming from policies to enforce the transition (e.g. ETS, phase-outs), but also possibly for investments in anticipation of measures which are reversed (combustion engine ban, ETS 2), putting early adopters at risk. Clear and predictable policy signals, price incentives and effective risk mitigation mechanisms are essential to mitigate risk and improve risk profiles, thus improving projects’ bankability. A renewed debate on the relevance of mechanisms like the ETS increases uncertainty and is unhelpful in this regard.

General uncertainty regarding transitional trajectories, level of political ambition, political measures and lengthy permitting procedures significantly hinder investors' decision-making and lead to unwillingness to undertake long-term large-volume investments (e.g. energy infrastructure). For banks to take larger and longer-term positions in support of Europe’s transition priorities, a high degree of regulatory and policy predictability is essential, as stable rules and consistent supervisory expectations are a prerequisite for committing balance sheet capacity to complex projects with multi-decade horizons.

Furthermore, as capital required for climate transition far exceeds the capacity of public funding alone, structuring national plans to be “bankable” creates a clear framework that attracts private-sector investment by defining tangible projects with transparent risk-return profiles. Also, effective de-risking mechanisms such as simple and scalable blended finance structures,

guarantee schemes, and originate-to-distribute models are crucial for increasing the bankability of transition projects and attracting private capital.

Considerations about the application of additional capital requirements for climate risk are also not helpful. Currently, the EBA is consulting on changes to SyRB guidelines to facilitate targeting of climate risks. The SyRB is an instrument specific to the EU and absent from the Basel framework or other key jurisdictions. This framework is prone to create an uneven playing field vis-à-vis non-EU financial institutions and financial institutions not subject to SyRB, affecting the global competitiveness of European banks, potentially without delivering commensurate financial stability benefits. **It should therefore be removed.**

In addition, **SyRB related to climate would discourage EU bank financing of the economic sectors which most need financing to transition**, high-emitting or energy-intensive sectors (See our separate response on SyRB).

Question 95: In light of the ongoing revision of a number of pieces of EU legislation on sustainability (CSRD delegated acts, Taxonomy delegated acts, SFDR), do you see the need for amending any provision of the banking regulatory framework with a view to ensure achieving the objective of properly managing sustainability-related risks faced by banks?

General comments:

The requirement for managing ESG risks is already extensively regulated in Article 87a of the CRD, which is complemented by several guidelines (e.g. EBA/GL/2025/04 (EBA GL on ESG scenario analysis), EBA/GL/2025/01 (EBA GL on ESG risk management), JC 2025 30 (ESAs joint GL on integrating ESG in supervisory stress testing)) and we therefore believe more regulation is neither necessary, nor desirable; on the contrary, a review is necessary to simplify, ensure consistency and more proportional approach to ESG risk management and supervision.

The recent Omnibus reform has taken an important step towards simplifying the sustainability requirements and reducing the reporting burden of companies. However, the Omnibus alone will not deliver meaningful simplification without corresponding revisions to the prudential framework in CRR3/CRD6. Banks still contend with disproportionate and duplicative ESG-related obligations, and the compliance burden risks being transmitted to banks' clients and counterparties in the real economy, undermining the objective of reducing administrative costs and regulatory barriers to investment. Recital 9 of the Omnibus simplification Directive acknowledges this problem, stating that financial services legislation and supervisory expectations must be adapted to reflect the new approach. We particularly stress the need for simplification, consistency and alignment between sector-agnostic and finance sector-specific legislation. Finance-specific obligations (including their timing and required level of implementation) should fully reflect the availability of ESG data.

The revised CSRD and changes stemming from the CSDDD will result in less ESG data and transition plans availability from banks' clients, which will affect banks' efforts to assess risk and report data in a uniform, streamlined manner. The need for bilateral data requests, proliferation

of questionnaires and involvement of third-party providers will result in additional burden and costs for both sides, the inverse of co-legislators' intent to reduce burdens and increase banks' competitiveness. Moreover, it could result in clients seeking more financing from financial service providers not subject to the same or similar requirements as EU banks.

Furthermore, to alleviate the burden and avoid competitiveness concerns, the availability of harmonised, **standardised public data and proxies are essential for reducing costs and avoiding bilateral data collection:**

- Member States should provide access to existing public data, create accessible data platforms for authorized users and encourage reuse of existing public data.
- The European Commission and Member States should review and reconsider legislative impediments to data sharing.
- Member States should incentivise voluntary reporting of companies not falling under the scope of mandatory reporting under the CSRD. While the use of proxies is justified, their limitations must be duly considered, and it is necessary to encourage companies through appropriate incentives to ensure a robust core dataset, as banks retain a fundamental interest in sound ESG-risk management and in steering their strategic objectives.
- Public entities and supervisors should share benchmark datasets, for example, on energy and water consumption.
- Authorities should provide proxies, reference data and public databases (emissions, asset location, insurance coverage).

The aim is to reduce the costs and complexity of data collection, as well as enabling banks to comply with ESG and prudential requirements more efficiently. Fragmented data availability, particularly on value-chain emissions, transition plans, and sector-specific risk metrics, forces banks to rely on estimates and conservative assumptions, raising capital charges and slowing decision-making for complex, high-impact projects.

The revision of the prudential framework should also consider **refocusing ESG provisions on climate and environmental risks**, where there is more maturity and supervisory attention than for social and governance issues. The current extensive requirements for ESG risks should be reviewed to make them more proportionate and embedded in existing prudential risk management practices (climate-related risks are, after all, risk drivers and not a standalone risk type).

Furthermore, consistency and proportionality must be considered not only within the regulatory frameworks but also with regard to **supervisory requirements and expectations**. A harmonised approach is essential for banks to efficiently manage sustainability-related risks and steer their portfolios effectively. Ensuring that these distinct but interconnected regulations are well-aligned will prevent duplicative reporting requirements and avoid unnecessary operational burdens, thereby allowing for a more focused and effective implementation of sustainability objectives.

Regarding climate-related **scenario analysis**, these exercises are characterised by very long-time horizons and significant methodological uncertainty. It is important to avoid a situation in which strategic decisions by banks become unduly driven by the results of scenarios that are still insufficiently robust and whose risk-sensitivity is limited. Scenario analysis should remain a tool for risk identification – not a binding determinant of business strategy.

Overall, we recommend a prudential framework that remains proportionate, coherent and aligned with the actual availability of sustainability data, while ensuring that sustainability-related risks are addressed in a way that is both effective and operationally feasible.

We therefore urge EU policymakers to put forward a concrete plan to revise ESG aspects of the prudential framework in CRR3/CRD6 as part of ongoing work to restore the competitiveness of the EU banking sector.

Specific comments – impact of the revision of different pieces of the legislation

1. Impact of CSRD-related changes on:

- **Pillar 3 ESG ITS**

- Pillar 3 requirements should be aligned with the new legislative developments under the CSRD, particularly considering the reduced scope of the CSRD. As a consequence of these changes, the availability of sustainability-related data in the market will decrease, affecting the efforts of banks needed to comply with disclosure and risk-management expectations. P3 should not require disclosure of data that are **not accessible and cannot be reasonably obtained**. Given the need to use estimations for a large part of the portfolio, we would like to stress the need to **provide reference data centrally, as highlighted above**.
- Furthermore, **the frequency of Pillar 3 ESG disclosures** should be adapted to reflect the CSRD regime (annual reporting), ensuring consistency across frameworks and avoiding duplicative or misaligned obligations. Such an approach will be aligned with the BCBS approach on climate-related disclosure under Pillar 3.

- **CRD Article 76 CRD**

- Should transition plans remain mandatory, their simplification and further proportionality adjustments to prioritize key ESG risks and reflect implementation challenges, including the reduced data availability stemming from the Omnibus revision, should be considered under the EBA ESG Risk Management Guidelines.
- In addition, banks that are part of a group (which, under Article 76 CRD, is required to have a transition plan on a consolidated basis) should be exempted from the requirement to adopt a plan on an individual or sub-consolidated basis. Similarly, EU subsidiaries of third-country institutions should be able to leverage and rely on, where applicable, on group-level transition plans to satisfy their EU entity-level transition plan obligations with a view to minimizing reporting burdens and maximizing interoperability of different transition planning requirements across jurisdictions.

- **EBA ESG Risk Management Guidelines**

- **Paragraph 28 of Guidelines** should be reviewed to **align the datapoints with the revised datapoints** in the upcoming simplified ESRS and voluntary standard VSME/VESRS).

- Currently, EBA-GLs refer to **large undertakings according to the Accounting Directive, which is no longer consistent with the new CSRD**. Requiring detailed ESG data for all of these counterparties would constitute an excessive burden for both banks and enterprises, as some of the latter are no longer obliged to disclose a CSRD sustainability report. Alignment with CSRD scope should be considered instead.
- **CRR**
 - **Article 430 - Supervisory ESG reporting.**
 - A very cautious proposal for the supervisory ESG reporting requirements is needed, ensuring they are limited to information that is actually necessary and consistent with other regulatory obligations, and based on three key principles: *define once, report once with data sharing*, as well as *enhanced governance*.
 - The “report once and share data” principle would reduce reconciliation burdens and prevent duplicate requests, while enabling authorities to reuse data efficiently.
 - Enhanced governance should ensure that ad hoc reporting requests are genuinely necessary, proportionate and regularly reviewed. Data disclosed according to Art. 449a CRR are similar and therefore seem to be sufficient.
 - Overall, this approach would avoid the burden associated with multiple data collection and data mapping efforts, as well as data mapping efforts should be avoided.
 - **Article 449a. Disclosure of ESG risks**
 - The scope of application for Pillar 3 ESG risk disclosure should be harmonised with that of the CSRD. Exclusion of SNCIs and banks that are not subject to the CSRD reporting, also from the scope of ESG disclosure under Art 449a CRR, should be considered. Should they be kept in the scope, their disclosure obligation should be further simplified, and an even more proportionate approach should be envisaged. In general, quantitative ESG disclosure requirements should not go beyond the CSRD reporting data points. From a procedural standpoint, duplicate submissions (disclosure and reporting) should be avoided.

2. Impact of SFDR-related changes on:

- **MiFID/IDD**
 - Amend the MiFID/IDD sustainability preferences framework and apply it not only to SFDR products but to all ‘financial instruments’ and ‘financial services’ (including portfolio management and investment advice) under MiFID II, as they may also incorporate sustainability factors and satisfy the sustainability preferences of investors.
 - Significantly simplify the sustainability preferences advisory process. The existing process is overly complex and full of technicalities that retail investors do not understand. The existing approach to sustainability preferences objectively creates difficulties and challenges for investors in expressing their preferences.
- **PRIIPS:** Allow sustainability disclosures in PRIIPS for non-SFDR products to ensure coherent information for investors. To ensure coherence and cater for retail investor needs, it is crucial that securities with sustainability features that are not financial products or that are not SFDR

products can be recommended to customers with sustainability preferences and be underliers of SFDR products.

- **ESG Ratings Regulation**

To strengthen transparency and ensure high-quality estimates essential for preventing greenwashing:

- Consider setting out requirements to which ESG data providers that fall outside the scope of the ESG Ratings Regulation [see Article 52(2)(c) of the ESG Ratings Regulation] but modify raw ESG data in any manner would be subject, following a thorough impact assessment. Whenever the ESG data is modified in any manner or sourced from third parties (e.g. NGOs, press), the regulation of such activity is essential, as financial institutions rely on such information. Regulating ESG data providers will increase the reliability of the information while limiting the risk of financial institutions being unjustly accused of greenwashing.
- At least, envisage a code of conduct for such data providers in the EU, improving the transparency and robustness of methodology.

- **Taxonomy Regulation**

Amend the Taxonomy Regulation to delete provisions that become moot and incompatible with the SFDR revision proposal (e.g., Article 5, 6, 7, 18(2), 19(1)(e), 21 (1) and Article 25).

- **ESMA Fund Naming Guidelines**

To avoid overlaps and inconsistencies, it is essential to withdraw the ESMA fund-naming guidelines, given that the SFDR Revision proposal sets up three categories with specific criteria for each category and naming restrictions, which make them redundant.

3. Other impacts:

Proposed ESG-related simplifications not directly related to the recent revision of SF regulation:

Pillar 3 ITS

- **Remove Taxonomy disclosures from Pillar 3 permanently (templates 6-10 and relevant columns in templates 1 and 4)**, particularly in a risk management context (and also to avoid duplications and inconsistencies with Art 8 reporting).
- We propose to **remove Table 4 from the P3 disclosure – exposures to the top 20 carbon-intensive firms**. This template does not disclose the credit institution's ESG risk profile, nor is it a useful set of information for stakeholders. The information is not used for risk management, and it is impossible to ensure comparability, consistency, and transparency in reporting, because there are many ways to establish the top 20 most carbon-intensive companies, based on only scope 1 of companies; 1 and 2; 1, 2, 3 upstream, or all scopes. But even if there is a unified top 20 list, this is not a relevant set of information at all"

- Information regarding inclusion of assets in the cover pool should also not be part of the ESG disclosure, as the reporting obligations are regulated in the Covered Bonds Directive.

ESRS

To significantly reduce reporting costs and to avoid double reporting, we propose a mutual and formal adoption of ESRS and ISSB standards as follows:

- Recognition of ESRS as aligned with ISSB standard, allowing EU-preparers to report via ESRS only, also for their subsidiaries outside the EU.
- Recognition of ISSB standards, allowing non-EU preparers to take ISSB as a baseline and add ESRS disclosure items missing in ISSB standards, such as items beyond climate (social and governance) and impact-related data points.

To consider removing the obligation to use ESEF-tagging for the sustainability data, as it goes beyond the requirements in other jurisdictions and is obsolete with the extended AI-usage.

EU taxonomy

We propose to **remove templates 6 and 7** (fee and commissions, trading book), currently required for financial years 2027 onwards from the mandatory art. 8 taxonomy reporting as less meaningful but burdensome EU-specific requirements.

CRR Article 501: Infrastructure Supporting Factor

The ISF requirements referring to the DNSH (Do No Significant Harm) of the EU Taxonomy raised significant legal uncertainties on its use for green or social projects (solar panels, building of hospitals). Also, projects being financed under the Infrastructure Supporting Factor (ISF) are not always based in the EU and/or are not subject to EUT/EU environmental laws/regulations. Therefore, clients face significant challenges in gathering the appropriate information to assess in line with EUT DNSH requirements. As a result, credit institutions face a lack of evidence to be able to assess the EU Taxonomy DNSH criteria. We consider that the reference to the EU Taxonomy should be removed, and the previous version of the IFS should be reintroduced, resulting in more practical application of ISF, while safeguarding the contribution to environmental objectives.

Art. 501a(1)(o) [version 09.07.2024]

“(o) the obligor has carried out an assessment whether the assets being financed contribute to the following environmental objectives:

(i) climate change mitigation;

(ii) climate change adaptation;

(iii) sustainable use and protection of water and marine resources;

(iv) transition to a circular economy, waste prevention and recycling;

(v) pollution prevention and control;

(vi) protection of healthy ecosystems.”

CRR Changing the frequency of collateral valuation

In Article 207(4), point (d) is replaced by the following:

“(d) they shall calculate the market value of the collateral, and revalue it accordingly, ~~at least once every six months~~ annually and whenever they have reason to believe that a significant decrease in the market value of the collateral has occurred; ESG-related considerations shall prompt an assessment of whether a significant decrease in the market value of the collateral has occurred”

Article 208 is amended as follows:

“(a) Paragraph 3 is amended as follows: (i) point (b) is replaced by the following:

(b) the property valuation is reviewed when information available to institutions indicates that the property value may have declined materially relative to general market prices and that review is carried out by a valuer who possesses the necessary qualifications, ability and experience to execute a valuation and who is independent from the credit decision process; ESG-related considerations, including those related to limitations imposed by the relevant Union and Member States regulatory objectives and legal acts, as well as, where relevant for internationally active institutions, third-country legal and regulatory objectives, shall be considered to be an indication that the property value might have declined materially, relative to general market prices; for loans exceeding ~~EUR 3 million or 5 % of the own funds of an institution~~, EUR 5 million property value the property valuation shall be reviewed by such valuer at least every ~~three~~ ten years.”
