

## Recommendations for the review of the Green Asset Ratio

July 2024

As highlighted in AFME's recent publication "Sustainable Finance in the EU: Priorities to unlock financing and investment"<sup>1</sup>, AFME strongly supports the European Commission (the "**Commission**"), policymakers and regulators' emphasis on ensuring that the EU sustainable finance framework is usable for market participants and works effectively in achieving its objectives.

One of the priority areas that AFME members have highlighted is the need to ensure that the Green Asset Ratio ("**GAR**") under the EU Taxonomy Regulation ("**Taxonomy**") and Pillar 3 ESG disclosures is a meaningful metric. We do not believe that the GAR, as currently formulated, is achieving this objective for investors and other stakeholders. Banks also face substantial challenges in assessing the Taxonomy alignment of their clients, which in turn affect the relevance of their GAR disclosure.

This paper sets out AFME's recommendations for the upcoming review of the GAR and the Disclosures Delegated Act ("**DDA**"), in support of the Commission's aim of scaling the impact of the Taxonomy and the broader EU framework for sustainable finance<sup>2</sup> as well as the work of ESAs and the Platform on Sustainable Finance ("**PSF**")<sup>3</sup>.

In this context, our key recommendations are that the Commission:

- (i) **Conducts a substantive review of the GAR.** The review of the DDA provides a timely opportunity to review the GAR in light of experience to date and the evolution of the EU Sustainable Finance regulatory framework, and to consider its practical usability.

The Commission should conduct a call for evidence and a fresh impact assessment in accordance with Better Regulation principles on the extent to which the GAR is achieving its policy objectives, balancing this with the significant associated costs for banks and companies they finance. The Commission should invite feedback from investors on whether they view the GAR as adding significant value and providing a meaningful metric in assessing the contribution of banks to financing the EU's environmental objectives. The GAR review should also be considered in the context of the Commission's commitments to streamline reporting requirements and enhance competitiveness; and the need to ensure that the EU regulatory framework is supporting and recognising not only Taxonomy-aligned financing but also transition finance.

- (ii) **Reviews the composition of the GAR** to increase its relevance and comparability. As outlined in further detail below, the GAR calculation methodology requires substantial review. Alongside reviewing the GAR, it is also essential to continue to enhance the usability of the Taxonomy and address operational challenges with assessing and demonstrating Taxonomy alignment.
- (iii) **Clearly communicates** the objectives of the GAR, what it is designed to measure, and explains its limitations. This is important to help stakeholders' understanding of current low GARs and the lack of comparability between institutions.

<sup>1</sup> [https://www.afme.eu/Portals/0/DispatchFeaturedImages/AFME\\_SusFinFramework\\_03-1.pdf](https://www.afme.eu/Portals/0/DispatchFeaturedImages/AFME_SusFinFramework_03-1.pdf)

<sup>2</sup> COMMISSION STAFF WORKING DOCUMENT, Enhancing the usability of the EU Taxonomy and the overall EU sustainable finance framework, 13.6.23 (pg 9); see also DRAFT COMMISSION NOTICE, on the interpretation and implementation of certain legal provisions of the Disclosures Delegated Act under Article 8 of the EU Taxonomy Regulation on the reporting of Taxonomy-eligible and Taxonomy-aligned economic activities and assets, 21.12.23 ("**Commission FAQ**")

<sup>3</sup> EU Platform on Sustainable Finance ("**PSF**"), *Platform Report on Usability: recommendations on Data and Usability as part of Taxonomy reporting*, October 2022, PSF, *A Compendium of Market Practices*, January 2024 (pg 11).

The Commission should also consider further steps to enhance the availability of Taxonomy reported information, which would be beneficial for financial institutions and other users, in particular in advance of ESAP being operational to cover Taxonomy reporting.

We hope that the recommendations provide constructive initial input into the review of the GAR and the DDA. We strongly encourage the Commission to work with banks to understand and address challenges throughout the process and consult on proposals ahead of any changes being introduced. The timeline for the review should be clearly communicated, and the timing of changes calibrated to ensure that there is appropriate time to implement changes ahead of the relevant reporting cycle.

The recommendations and considerations set out in this paper are also of relevance to the GAR established under Pillar 3 ESG reporting. We encourage the Commission and the EBA to work closely together to ensure coordination of the reviews of the DDA and Pillar 3 ESG disclosures.

### Review of the role of the GAR

The review of the DDA should first and foremost assess whether the GAR will be able to achieve its stated policy aims of becoming a comparable, useful metric for understanding the proportion of banks' financing of Taxonomy-aligned economic activities. It is important to reflect upon experience to date, feedback from investors, the evolution of the broader sustainability reporting framework and the need to incentivise and recognise not only Taxonomy-aligned financing but also transition finance.

We call for the Commission to conduct a call for evidence and fresh impact assessment on the extent to which the GAR is achieving its policy objectives and responding to stakeholders' broader information needs to understand financial institutions' contribution to the EU's climate and environmental objectives. The review should consider the following:

- whether the GAR provides significant added value for stakeholders beyond other sustainability reporting, for example CSRD reporting and transition plans which provide comprehensive sustainability information;
- whether the GAR is well understood by stakeholders and whether a focus on Taxonomy-alignment is compatible with the importance of promoting the provision of transition finance to meet the EU's environmental objectives; and
- the high costs and significant resources required for banks to meet Taxonomy reporting and the consequential impact on their clients, especially SMEs which may lack resources to provide the necessary information.

Experience from the first year of GAR reporting has, as expected, resulted in very low percentages being reported due to (i) the small number of economic activities that are currently Taxonomy-aligned<sup>4</sup>; (ii) the limitations of the ratio design; and (iii) the challenges with demonstrating Taxonomy alignment. Reporting has also involved banks reporting a large volume of tables, up to 40 pages in some cases (and on average at least 30 pages with most tables filled with zeros as entries), which is neither readily digestible nor useful for users.

Since the Taxonomy was adopted, there has been significant progress in developing the EU regulatory framework for sustainable finance. Banks will be reporting comprehensive sustainability information under CSRD, reporting under Pillar 3 and publishing transition plans which provide detailed information to stakeholders. As the GAR only captures Taxonomy-aligned activities, it does not adequately capture financing of activities that contribute to the transition and fall within the European Commission's definition of transition

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<sup>4</sup> See e.g. Bankenverband, [Analysis of the taxonomy profile of industry](#), September 2023 (pg 4).

finance, but which are not currently aligned with the Taxonomy. Accordingly, the GAR does not reflect or incentivise the provision of transition finance.

GAR reporting entails a very significant operational exercise for banks, requiring detailed information from clients, counterparties and investee companies. In addition to taking very substantial resources for banks, it also creates burdens for their clients in providing the required information. It is therefore important to ensure that the GAR is providing sufficient added value and decision-useful information for investors to justify its associated costs and to streamline processes to minimise operational resources for banks and their clients.

Operational challenges with demonstrating Taxonomy alignment will not abate in the medium term. When considering the very significant operational burden on banks and, in turn, their clients in obtaining data and assessing alignment, and other jurisdictions not adopting similar measures, the GAR could lead to a competitive disadvantage for banks operating in the EU. We therefore believe that a substantive review of whether the GAR is achieving its intended objectives is appropriate and necessary.

### Composition of the GAR

If the outcome of the refreshed impact assessment indicates that the GAR should be retained, the GAR calculation methodology requires substantial review in order to become decision-useful for investors. Any changes to the GAR under Article 8 Taxonomy reporting should also be reflected in Pillar 3 ESG GAR disclosures.

We believe that the review of the DDA should take into account the following five key principles:

- (i) The policy objectives of the Taxonomy disclosure KPIs should be clearly established and the rationale for the KPIs clearly set out and explained to stakeholders.
- (ii) KPIs must provide meaningful, comparable information which is valuable to investors and other key stakeholders.
- (iii) There should be symmetry between the scope of assets included in the numerator and denominator of the GAR to aid understanding and ensure comparability.
- (iv) The scope of assets included in the GAR (numerator and denominator) should be focused on financing of Taxonomy-eligible activities where it is feasible to demonstrate alignment with the Taxonomy (across substantial contribution, Do-No-Significant Harm (“**DNSH**”) and Minimum Social Safeguards (“**MSS**”)), i.e. data is available and it is practicable to assess Taxonomy alignment.<sup>5</sup>
- (v) The operational burden for banks and their clients should be minimised and should not adversely affect the competitiveness of banks or companies within the scope of the reporting.

AFME members have identified a number of design issues and operational challenges that need to be addressed in order to achieve these principles. We set out a non-exhaustive list of examples of these in the sections below, together with recommendations for how they could be addressed.

Most of the recommendations below pertain to the methodology and calculation of the total GAR for the banking book. However, we have also included some additional recommendations regarding other KPIs mandated by the DDA.

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<sup>5</sup> We consider below how this principle could be applied to different types of counterparties and types of assets.

## 1. GAR Design issues

There are a number of flaws in the current design of the GAR. First and foremost, there is a significant asymmetry between the scope of the numerator and the denominator. Asymmetry leads to a lack of comparability of disclosures amongst banks. This asymmetry is due to the fact that while the numerator comprises Taxonomy-aligned activities in the scope of CSRD, the denominator counts instead the total assets independently from the scope of CSRD, including, therefore, assets that cannot be eligible for the Taxonomy and will never be Taxonomy-aligned, and many assets where it is extremely challenging to assess Taxonomy alignment.

Different banks have different business models, and the current GAR formula does not enable meaningful comparison amongst banks. The ratio is significantly impacted by factors such as the proportion of business in sectors covered by the Taxonomy, the services that they provide (including the proportion of retail counterparties on their balance sheet) and the proportion of their balance sheet outside the EU (which is unlikely to be eligible for the Taxonomy).

**As per our third principle set out above, we believe it is important to ensure symmetry between the scope of the numerator and the denominator.** This is essential to improve the meaningfulness and comparability of the KPI.

When assessing the scope of the GAR numerator and denominator, it is important to take into account that:

- certain categories of clients are outside the scope of NFRD/CSRD and therefore will not be reporting Taxonomy alignment; and
- certain assets are not within the scope of the Taxonomy and therefore could never be Taxonomy-aligned.

The below table sets out particular considerations and recommendations for how these types of counterparties and assets should be addressed as part of the review process.

### A. Considerations for types of counterparties

Category of counterparty and considerations for review	AFME recommendations
<p><b>SMEs:</b> Exposures to undertakings that are not obliged to publish non-financial information pursuant to the CSRD are currently excluded from the numerator of the GAR but included in the denominator.<sup>6</sup></p> <p>Banks face significant challenges with the availability of the necessary data from SMEs to demonstrate Taxonomy alignment. Calculation of Taxonomy alignment can also be complex for SMEs with limited resources and so it is necessary to avoid introducing additional burdens on SMEs. Nevertheless, SMEs continue to make up a significant proportion of the EU economy and are</p>	<p>AFME's recommendation is to exclude SMEs not covered by CSRD from the scope of the GAR (both numerator and denominator) until a practical approach is developed to enable banks to have access to reliable data and readily assess Taxonomy alignment, potentially reflecting upon experience with the BTAR.</p> <p>However, we encourage the Commission and the PSF to continue work to explore a simplified approach to assessing Taxonomy alignment for EU SMEs. If an approach can be found that enables banks to be able to readily assess Taxonomy alignment of financing of EU SMEs, consideration could be given to including them in the GAR in the future. In such a case it would</p>

<sup>6</sup> This is one of the issues highlighted in the DDA review clause. PSF also has recognised this issue. PSF, *A Compendium of Market Practices*, January 2024 (pg 27); PSF, *Platform Report on Usability: recommendations on Data and Usability as part of Taxonomy reporting*, October 2022 (pg 99-100). See also Commission FAQ 5 and 16.

<p>an important category of companies that require financing as part of the transition.</p> <p>While listed SMEs will in due course report under CSRD from 2027, Taxonomy alignment data is unlikely to be readily available for unlisted SMEs.</p>	<p>be important to manage communications to explain changes in the GAR at that point in time.</p>
<p><b>Companies and individuals located outside the EU:</b> Exposures to companies and individuals located outside the EU are included in the denominator of the GAR. Assets which are located outside of the EU are less likely to be aligned with the Taxonomy and/or data is much less likely to be available.<sup>7</sup></p>	<p>We recommend excluding exposures to companies and individuals located outside the EU from the GAR (i.e. both the numerator and denominator) due to the challenges for banks to determine the Taxonomy alignment of clients which are not required to report that alignment.</p> <p>We continue to support work to enhance international interoperability of taxonomies including through the International Platform on Sustainable Finance, but currently this does not provide a sufficient basis to enable banks to assess non-EU clients' alignment with the Taxonomy.</p>
<p><b>Project financing and specialised lending through SPVs:</b> The Commission FAQ indicates that group structures of SPVs are to be evaluated only for companies subject to CSRD. However, most financing for renewable projects is provided via an SPV owning the assets. Few SPVs belong to a group reporting under CSRD, resulting in the exclusion of most dedicated renewables financing.</p>	<p>It is important that the GAR includes financing provided through financing vehicles such as SPVs, for example in the course of project finance or securitisation. Many of the projects related to green technologies are financed through SPVs with a known use of proceeds and it is a structure that is also more and more adopted by SMEs. We recommend that use of proceeds for all SPVs which finance projects located in the EU (regardless of whether the ultimate beneficiary or reporting undertaking are subject to CSRD reporting) are included in the GAR as they contribute to the greening of the EU economy. As per the above, we recommend that exposures to projects which are located outside of the EU are excluded from both the numerator and denominator of the GAR.</p> <p>A practical approach is also required to facilitate the assessment of Taxonomy alignment for such financing. We recommend that the Taxonomy alignment of the economic activities financed through an SPV with known use of proceeds should be included in the numerator of financial undertakings' mandatory KPIs independently of whether the parent or ultimate beneficiary meets CSRD thresholds.</p> <p>Although such cases would be rare, where the use of proceeds is not known, the approach given in the Commission FAQ 14 does not work as, in most cases,</p>

<sup>7</sup> PSF also has recognised this issue. PSF, *Platform Report on Usability: recommendations on Data and Usability as part of Taxonomy reporting*, October 2022 (pg 166).

	SPVs are not consolidated, and therefore identifying a parent reporting the KPI will not be possible. The identification of the ultimate beneficiary would be a complex and detailed assessment. This is because SPVs may not be traced through straightforward ownership structures; SPVs may be owned by several intermediaries who are not CSRD reporters, and ownership can take many forms other than equity ownership such as contractual control or the granting of security. In addition, banks may not have in their reporting databases whether the ultimate beneficiaries or parent undertakings of SPVs are reporters under CSRD and may not be able to access such entities' KPIs.
<b>Securitisation SPVs:</b> There are practical challenges with Commission FAQ 27 for both originators and investors in securitisations. Commission FAQ 27 assumes that “in the case of securitisation the originator/bank has no longer legal or economic ownership of these assets and does not carry those assets on its balance sheet,” but this assumption does not bear out. For accounting purposes, an originator usually (but not always) holds the assets on its balance sheet and does not deconsolidate these assets. The approach set out in Commission FAQs 14 and 27 for bank assessment of Taxonomy alignment of SPVs does not work for banks that are “investors” in SPVs, particularly in the case of mortgage-backed securitisation. Even for securitisations not consisting of mortgages, the challenge for an “investor” bank to independently verify the Taxonomy alignment of all the underlying assets and include such alignment in its GAR is simply not possible, especially when the originator does not measure the KPI in its underlying assets. <sup>8</sup>	Commission FAQ 27 should be reviewed in light of bank feedback. We recommend that originators should calculate and report in the GAR the Taxonomy alignment of their securitised assets, if available, in the numerator of the GAR to the extent that the securitised assets are consolidated on the originator’s balance sheet from an accounting perspective. <sup>9</sup> When investors in securitised assets do not consolidate the underlying assets of a securitisation on their balance sheet (for example in synthetic securitisation), the investors should only use the Taxonomy alignment of the use of proceeds of the securitised instrument for purposes of the GAR rather than the Taxonomy alignment of the underlying assets. We would welcome a more fulsome technical discussion with the Commission on the inclusion of securitisation in the GAR.
<b>Retail financing:</b> as discussed below, challenges arise with demonstrating Taxonomy alignment of financing provided to individuals.	We support the inclusion of financing of individuals located in the EU within the scope of the GAR. As discussed in the next section, it is important to establish a workable approach to the assessment of Taxonomy alignment.
<b>Central banks and central governments</b>	We support the continued exclusion of exposures to central banks and central governments from the GAR,

<sup>8</sup> This has also been acknowledged by the PSF. See PSF, *Platform Report on Usability: recommendations on Data and Usability as part of Taxonomy reporting*, October 2022 (pg 108).

<sup>9</sup> See also EBA, *EBA Report: Developing a Framework for Sustainable Securitisation*, June 2022 (pg 34).



	as well as the PSF's call for further research into how the Taxonomy could be applied to the public sector <sup>10</sup> .
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## B. Considerations for certain types of assets

Type of asset	AFME recommendations
<b>Inclusion of derivatives in the GAR:</b> currently derivatives are included in the GAR denominator but not in the numerator. This adds to the asymmetry discussed above.	Further to the industry's input on this matter that was provided to the Ad Hoc Derivatives WG under the PSF rather than including all derivatives in the denominator (excluding those in the trading portfolio) and none in the numerator, we would propose including in both the numerator and denominator of the banking book GAR derivatives which are capable of being assessed for Taxonomy alignment (e.g. equity and credit derivatives where Taxonomy alignment disclosures are available for the underlying asset without excluding other asset classes that may be assessed and considered for Taxonomy alignment in the future as new objectives and methodologies develop).  The DDA should be amended to provide guidance for identifying and calculating derivatives' inclusion in the GAR.
<b>Activities not eligible for the Taxonomy:</b> the Taxonomy does not cover all economic activities. Assets in sectors not covered by the Taxonomy cannot be aligned.	These should be excluded from the GAR.
<b>Assets which the Taxonomy was not designed to cover:</b> the GAR includes "other assets" in the denominator which will never be eligible for the Taxonomy, such as goodwill, on demand interbank loans, cash and cash-related assets and trade receivables.	These should be excluded from the GAR.

## 2. Operational challenges and challenges with demonstrating Taxonomy alignment

Banks continue to face significant usability and data challenges with assessing the Taxonomy alignment of their financing. These operational challenges result in a very significant operational burden on banks to report the GAR and this is expected to increase as the scope of companies subject to CSRD expands.

It is important that the Commission continues to progress work to enhance the usability of the Taxonomy alongside the review of the GAR. This section complements AFME's recommendations to enhance the usability

<sup>10</sup> PSF, *Platform Report on Usability: recommendations on Data and Usability as part of Taxonomy reporting*, October 2022 (pg 82-83).

of the Taxonomy set out in our report (see section 1.1.3), including enhancing the usability of the assessment of DNSH<sup>11</sup>.

Issue	AFME recommendation
<p><b>Assessing Taxonomy alignment of retail financing (including mortgages, building renovations and car loans):</b></p> <p>The numerator of the GAR includes Taxonomy-aligned residential real estate, building renovations and car loans. Responsibility for assessing Taxonomy alignment of these loans (including the fulfilment of DNSH and MSS) falls on banks, which is very challenging, especially in light of the Commission FAQ.<sup>12</sup></p>	<p>While we support the inclusion of retail financing to individuals in the EU in the scope of the GAR, as highlighted by the PSF, it is essential to facilitate banks' ability to demonstrate Taxonomy alignment, in particular with respect to satisfying DNSH and MSS criteria where information is not available.</p> <p>It is important to provide a simplified, workable approach to the assessment of Taxonomy alignment for retail financing. For example, this could involve limiting the Taxonomy assessment to substantial contribution criteria or providing that compliance with MSS or DNSH should not apply for retail financing<sup>13</sup>.</p> <p>For mortgages and building renovations, we propose following the simplified approach provided by the EBA in its Pillar 3 ESG risk disclosures for the GAR, with the estimation of Taxonomy alignment based upon the energy performance of the underlying collateral/asset, based on the energy performance certificate label (EPC), in line with the screening criteria proposed in the Taxonomy for the acquisition of buildings (old and new) or renovation of buildings.</p> <p>As highlighted by the PSF, it is also important to provide a workable approach for the Taxonomy alignment of existing mortgage stock and car loans.<sup>14</sup></p>
<p><b>Banks' assessment of non-retail clients' substantial contribution, DNSH and MSS assessments</b></p>	<p>Banks should be able to adopt their clients' own substantial contribution, DNSH and MSS assessments, both for general purpose and use of proceeds financing, without having to conduct their own assessment. Clients are best placed to conduct their own assessments, and the external assurance on this assessment should be done by verifiers which are not banks<sup>15</sup> (although banks may also conduct due diligence).</p>
<p><b>Documentary evidence of DNSH criteria: Commission FAQ 33 requires banks to collect</b></p>	<p>As discussed above (see retail financing), it is necessary to provide a workable approach for the</p>

<sup>11</sup> AFME, *Sustainable Finance in the EU: Priorities to unlock financing and investment*, November 2023.

<sup>12</sup> PSF also has recognised this issue. PSF, *Platform Report on Usability: recommendations on Data and Usability as part of Taxonomy reporting*, October 2022 (pg 106, see also pg 109-113) This is discussed in the Commission FAQ 32, 33.

<sup>13</sup> The PSF also acknowledges that MSS are not designed to be applied to households. See PSF, *Final Report on Minimum Safeguards*, October 2022 (pg 11).

<sup>14</sup> PSF, *Platform Report on Usability: recommendations on Data and Usability as part of Taxonomy reporting*, October 2022 (pg 113).

<sup>15</sup> The PSF confirms that assurance should come from an "independent assurance service provider." PSF, *Platform Report on Usability: recommendations on Data and Usability as part of Taxonomy reporting*, October 2022 (pg 123).



documented evidence for the fulfilment of each DNSH criterion. This is not possible for banks in the retail and real estate contexts. The Commission FAQ 33 gives the example of collecting an EPC in addition to “adequate documentary evidence that all DNSH criteria are met.” This raises the same issues as with other real estate alignment assessments discussed above – banks are often unable to collect this data from retail clients.	assessment of Taxonomy alignment for retail clients. It is not practical to require banks to obtain documentary evidence for the fulfilment of each DNSH criterion. This should also apply to the evaluation of transactions with known use of proceeds.
<b>Tagging economic activity:</b> The GAR disclosure templates in Annex VI of the DDA require tagging economic activity as either enabling, transitional/adaptation or specialised lending.	This tagging is more pertinent for corporate reporters, within Annex II of the DDA. We therefore support the recommendation of the PSF to remove this requirement. <sup>16</sup>
<b>Nuclear &amp; Gas templates:</b> The duplication of Nuclear & Gas templates per KPI set out in the Taxonomy Nuclear and Gas Delegated Act leads to a multiplication of the effort of reporting and results in banks reporting many pages of templates that do not provide relevant information.	We recommend reducing the number of Nuclear and Gas templates as they are not workable or useful for users. It is important to streamline and limit the mandatory table disclosures to tables relating to GAR stock (Turnover based or Capex based) for a banking group.
<p><b>Grandfathering Taxonomy assessment for TSC:</b> The DDA explains that if Technical Screening Criteria (“TSC”) are amended, the proceeds of special purpose loans shall be considered aligned with the amended TSC (“grandfathered”) until 5 years after the date of application of the delegated acts that amend those TSC.</p> <p>This means in practice that if TSC are amended, banks must implement processes asking clients for new documents to reassess alignment on a five-year rolling basis. Commission FAQ 34 indicates that banks should engage with their counterparties in view of aligning their economic activities with the amended TSC during the 5-year transitional period, but clients are not required to produce evidence of alignment with new TSC.</p> <p>Borrowers are not obliged to notify banks if TSC are changed, and banks do not have the ability to monitor all changes in TSCs and the potential impact on their use-of-proceeds portfolio.</p>	With respect to Taxonomy alignment of the proceeds of special purpose loans, we recommend removing the five-year grandfathering period for special purpose lending and leave the Taxonomy assessment of special purpose financing unchanged until the end of the financing term. <sup>17</sup> Eliminating grandfathering should also make annual monitoring unnecessary.
<b>Grandfathering Taxonomy assessment for NZEB criteria:</b> With respect to mortgages, there is	We recommend leaving the Taxonomy assessment of mortgage assets unchanged until the end of the

<sup>16</sup> PSF, *Platform Report on Usability: recommendations on Data and Usability as part of Taxonomy reporting*, October 2022 (pg 10, pg 75-76); see also PSF, *Response to the Call for feedback on the draft Taxonomy Delegated Acts*, May 2023 (pg 4, 5).

<sup>17</sup> See also PSF, *Platform Report on Usability: recommendations on Data and Usability as part of Taxonomy reporting*, October 2022 (pg 92) for similar recommendations on grandfathering.

<p>no grandfathering in the case NZEB criteria are changed at national level. This adds significant workload without necessarily increasing the integrity of reporting.</p> <p>This goes beyond the meaning of Climate Delegated Act Annex I Section 7.7 (“criteria specified in Section 7.1 of this Annex that are relevant at the time of the acquisition”). Moreover, this would translate into a significant additional burden for banks to adjust the IT systems to be able to spot the affected mortgages.</p>	<p>financing term and requiring assessment according to updated NZEB or national criteria only for new contracts and refinancing, as this provides certainty and allows banks to influence the project design according to Taxonomy criteria.</p>
<p><b>GAR Flow: Measuring the “flow” of new lending</b></p> <p>The clarification provided in Commission FAQ 65 that flows represent the amounts ‘without deducting the amounts of loan repayments...’ presents significant practical challenges, as bank systems currently do not produce that information. Additionally, not taking into account repayments produces non-intuitive results for certain products, e.g. revolving facilities. The change introduced involves a very significant additional burden for banks, as they would have to monitor any repayment or additional drawing on existing facilities during the year on their portfolio.</p>	<p>We recommend having the GAR Flow obtained by deduction of GAR stock between two consecutive years. Any other approach should be tested with constituents through field testing that would aim to assess the benefits envisaged against the costs to be incurred by banks for updating their systems to accommodate the requirements.</p>
<p><b>Tagging of NFRD/CSRD entities:</b> the reliability of counterparties’ data will depend on whether they report in accordance with relevant standards. In determining whether to include disclosures based on counterparties’ data, banks must also be able to establish whether their disclosures are done on a mandatory or voluntary basis.</p> <p>Banks are unable to determine effectively whether counterparties report in accordance with NFRD due to the complexity of its scoping criteria – these criteria will also change with the application of CSRD.</p>	<p>The onus is currently on financial institutions to identify which of their counterparties are NFRD or non-NFRD whereas such information should be systematically and publicly available.</p> <p>Until the EU Taxonomy XBRL is in place, we thus recommend adding a field to the summary template 0 where undertakings indicate whether reporting is made in accordance with NFRD/CSRD or voluntary.</p>
<p><b>Identification of subsidiary entities included in parent company disclosure.</b> Parent entities of banks’ counterparties may choose to report data on a consolidated basis for their subsidiaries. Banks must be able to identify these cases and determine which subsidiaries are captured.</p> <p>Additionally, Commission FAQ 13 provides that where a subsidiary has a parent undertaking subject to NFRD/CSRD, it must be included in the</p>	<p>Corporate entities that report on a consolidated basis should be required to provide a table with all entity names included in the consolidation of the parent’s Taxonomy disclosures.</p> <p>Commission FAQ 13 should be reviewed.</p>

<p>Taxonomy assessment. Having to assess whether the parent company of a client is subject to the NFRD/CSRD requires a detailed study of the group structure of the counterparty. It is also unclear where the relevant KPI for the non-NFRD counterparty would be found in the parent undertaking's mandatory templates.</p>	
<p><b>Review of presentation and usability of disclosure:</b> Numerous templates are published, and get lost, in the middle of the non-financial report. Many fields are blank or have less relevant datapoints making it difficult to identify the most important information. Some could be moved to an appendix to reduce complexity.</p>	<p>We recommend that the Commission reviews the presentation of disclosures to enhance usability. We have the following specific recommendations for this purpose:</p> <p>Similar to the presentation of traditional financial metrics, we recommend including on the summary template 0, the most decision useful figures such as the GAR and sub-GARs from templates 3 and 5, which enable comparison across client types, e.g. non-financial counterparties.</p> <p>Similar to financial statements, this may then be supplemented by notes which provide additional granularity in the appendix of the report.</p> <p>We also recommend that the tables showing NACE alignment be removed. Different banks apply different NACE codes for the same company, which leads to a lack of comparability of disclosure.</p> <p>We recommend the omission of rows/columns with nil exposures, along with any explanatory note. There are many rows/columns that have nil exposure, but as banks are required to report the entire table without hiding any rows/columns, this diminishes the usefulness of the disclosures.</p> <p>We recommend adjusting the number of columns in reporting templates to allow for public disclosure in annual reports. Current Taxonomy templates contain 33 columns for the current year and an additional 31 columns for previous year comparatives. It is impractical to fit all these columns in the annual report page without using an unreadable font size.</p> <p>We recommend, to the extent possible, providing formulae for the calculation of KPIs and other cells in the templates. In a peer analysis for December 2023, it was noticed that different banks used varying approaches for reporting key metrics due to the lack of clear guidance on KPIs. This led to incomparability</p>

	of information, which is crucial for investors and stakeholders.
<b>Review of Commission FAQ:</b> our members have highlighted several challenges arising from implementation of the Commission FAQ.	We encourage the Commission to open a dialogue with banks to address clarifications and ensure a workable approach to the Commission FAQ.

### 3. Concerns with other KPIs

Alongside the review of the GAR, the Commission should review related KPIs for financial institutions such as the Fees & Commissions KPI and the GAR for the trading portfolio. Assessing the Taxonomy alignment of trading book and fees and commissions is expected to be particularly challenging and the benefits of these KPIs are unclear. **We therefore recommend that the Commission conducts a cost-benefit analysis for these KPIs in addition to the GAR and that it removes these KPIs if the costs exceed the benefits of this information.**

If retained, KPIs for financial institutions should focus on the Taxonomy alignment of economic activities where banks have the ability to influence capital flows towards sustainable outcomes.

KPI	AFME recommendation
<p><b>F&amp;C KPI:</b> The F&amp;C KPI is designed to measure the percentage of banks' income from services other than lending which are associated with Taxonomy-aligned economic activities.<sup>18</sup></p> <p>This KPI is problematic for two reasons. First, banks have no say in whether some of their services, such as executing buy/sell orders for securities, are associated with Taxonomy-aligned economic activities. Financial services which are not directly linked to financing (such as custody and clearing) have very tenuous links to real economy activity. It is unclear why this KPI would only apply to credit institutions and not any other corporate entity receiving fees from clients. This KPI in its current form risks providing a very misleading impression to stakeholders.</p> <p>Second, even for some services where a bank has an influential client relationship such as in bond underwriting, the fees and commission paid by the client do not always reflect a bank's contribution to Taxonomy-aligned activities. For instance, a bank would receive underwriting fees for both green bonds and vanilla bonds, but only the Taxonomy alignment of the issuer would influence the F&amp;C</p>	<p>As discussed above, the Commission should conduct a cost-benefit analysis and consider removing the F&amp;C KPI. If it is retained, we encourage the Commission to consider the findings of the PSF, which recommended that the F&amp;C KPI should be qualified so as to encourage the credit institution to offer Taxonomy-aligned products and services to its clients.<sup>19</sup> In this respect, the PSF recommended that the F&amp;C KPI should only apply to fees and commissions that are generated from activities that have the capacity to influence capital flows towards sustainable outcomes; other activities should be excluded.</p>

<sup>18</sup> European Commission, Commission Staff Working Document: Article 8 of Taxonomy Regulation; July 2021 (pg 10).

<sup>19</sup> PSF, *Response to the Call for feedback on the draft Taxonomy Delegated Acts*, May 2023 (pg 4).

KPI, not the Taxonomy alignment of the use of proceeds of the bond.	
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### Communications on the GAR

The GAR should also be better explained by the Commission to avoid misconceptions about what it is intended to measure.

It is important to clarify what the GAR does and does not measure and explain why it does not reflect the full contribution that banks are making towards financing the transition to net zero, including for example the provision of transition finance. **The GAR could better be described as an “EU Taxonomy Alignment Ratio” rather than a “Green Asset Ratio”.** To aid comparison, the Commission should also calculate a Taxonomy alignment ratio for the EU economy.

While our recommendations in this paper should, if adopted, improve the meaningfulness of the GAR, it is essential to emphasise that the GAR will continue to be a limited measure and only one part of the broader role that banks play in financing their clients throughout the transition. It should also be emphasised that the GAR is not designed as a measurement of climate or environmental risk.

Overall, it is crucial that any changes to the DDA are preceded by proper consultation. AFME members stand ready to further engage with the Commission, PSF and ESAs ahead of the review.

### Recommendations on the publication and use of guidance and FAQs

We commend the efforts made by the Commission and its advisory bodies to support undertakings with the implementation of disclosure requirements. Guidance, however, has not aided banks’ implementation efforts when it was published in draft form, with implementation work well underway, without stakeholder consultation and in significant volume.

Our experience has indicated that FAQs should be produced before, not after, relevant implementation work is underway. If, for the purposes of addressing urgent questions or inconsistencies, guidance is published shortly before application, it should be accompanied by adequate phase-ins and/or safe harbours for the next reporting cycle. Further, FAQs should not introduce different, new or ambiguous reporting expectations than those set out in the main acts, as we have observed with guidance on the implementation of the Taxonomy and SFDR.

We therefore wish to reiterate the importance of coordination between application timelines and the issuance of planned implementation guidance, considering that the latter should be provided sufficiently in advance of the relevant reporting cycle.

AFME will separately provide feedback on the Commission FAQ reflecting upon the experience with banks’ first year of GAR reporting. We encourage policymakers to maintain a close dialogue with market participants on the development of guidance and FAQs.

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## About AFME

The Association for Financial Markets in Europe (“**AFME**”)<sup>20</sup> represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society.

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<sup>20</sup> AFME is registered on the EU Transparency Register, registration number 65110063986-76.