AFME response to EBA's Consultation Paper on ITS on disclosures of ESG risks, equity exposures and aggregate exposures to shadow banking entities

31 July 2025

The Association for Financial Markets in Europe (AFME) welcomes the opportunity to comment on Consultation Paper on ITS on disclosures of ESG risks, equity exposures and aggregate exposures to shadow banking entities. AFME 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.

AFME is the European member of the Global Financial Markets Association (GFMA) a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) in Asia.

AFME is registered on the EU Transparency Register, registration number 65110063986-76.

We summarise below our high-level response to the consultation, which is followed by our more detailed recommendations along with answers to the individual questions raised.

Executive Summary

AFME welcomes the opportunity to comment on the EBA's consultation paper on ITS on disclosures of ESG risks, equity exposures and aggregate exposures to shadow banking entities (the "Consultation Paper"). The Consultation Paper is an important step in developing a proportionate ESG prudential disclosure framework, aligned with the European Commission's "Omnibus" proposal to simplify sustainability reporting.

Our comments in this response are focused on the proposed amendments to Pillar 3 ESG-related risk disclosures under the Consultation Paper. We have also provided feedback on certain other aspects of the Consultation Paper, including on shadow banking entities, disclosures on equity exposures and other templates.

We welcome the EBA's aim under the Consultation Paper to simplify Pillar 3 ESG reporting, in particular the interim suspension of GAR and Taxonomy-related disclosure and the approach of cross-referring to Taxonomy templates. While our primary position remains that Taxonomy disclosures (including the GAR and BTAR) should be removed under Pillar 3 as the Taxonomy is not a tailored risk management tool, we nonetheless welcome the proposed suspension as an interim measure, to ensure institutions are not subject to overly burdensome and potentially inconsistent reporting obligations. The length of the transitional relief should however be extended in line with optional relief introduced by the European Commission's Delegated Regulation amending the Disclosures Delegated Act, i.e. at least until the end of 2027. We also welcome the EBA's proposal to reduce the frequency of certain Pillar 3 disclosures for large, listed institutions from semi-annual to annual disclosures, although additional work is needed to ensure large entities are also subject to a simplified approach.

Nevertheless, as a whole, we do not believe that the EBA's proposals under the Consultation Paper go nearly far enough in simplifying and clarifying the Pillar 3 ESG disclosures. Further work is therefore required to

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streamline Pillar 3 disclosures and ensure these are substantively aligned to Pillar 3 and to the Omnibus simplification objectives

At a high level, we have the following concerns with the Consultation Paper proposals, namely that a number of the proposed Pillar 3 ESG disclosures:

- are not relevant for, and/or do not provide meaningful information on, institutions' credit risk exposures and therefore are inconsistent with the Pillar 3 objectives;
- do not contain an express and consistent materiality approach for reporting, which may result in disclosures that are neither meaningful nor useful for market participants;
- duplicate information already provided in other sustainability reporting, creating an overly burdensome process for reporting entities and resulting in potentially repetitive and/or inconsistent disclosures for market participants; and
- owing to lack of available data, will necessitate excessive reliance on proxies and estimates (as applicable), again resulting in disclosures that are potentially misleading, not comparable and/or not useful for market participants.

Our recommendations, as detailed below, therefore aim to address these concerns by proposing to either amend or remove certain disclosures. This response is divided into our recommendations for:

- **Section 1:** the EBA's general approach to Pillar 3 ESG disclosure;
- **Sections 2a and 2b:** the EBA's approach to Pillar 3 ESG quantitative disclosure, including general recommendations and specific recommendations for amendments to individual quantitative templates;
- **Section 3:** the EBA's approach to Pillar 3 ESG qualitative disclosure, including specific recommendations for amendments to the individual qualitative templates; and
- **Section 4:** other issues in the Consultation Paper.

We acknowledge that our response contains a number of recommendations, and therefore we have also included an initial section on areas of priority.

Areas of Priority

Our response includes several recommendations to remove certain disclosure obligations and/or templates altogether. While we believe there are strong reasons to justify such removals, as explained throughout this response, we acknowledge that the EBA may not wish to accommodate all such requests. We therefore wish to highlight specific recommendations that we believe the EBA should prioritise.

We also note that, in many cases, we have proposed a tiered approach – i.e. if the EBA does not consider removal of a certain template feasible, then we have proposed specific amendments as an alternative.

Areas of priority should include:

- **Disclosure frequency:** As explained in this response, we recommend extending the materiality principle outlined in Article 432(1) of CRR to reduce the frequency of templates 1, 2, 4 and 5 for large institutions from semi-annual templates (namely, quantitative templates 1, 2, 4 and 5. We have recommended the removal of non-financial reporting metrics (including GHG emissions in Template

1 and EPC labels in Template 2) – however, if these metrics are retained in the relevant templates, these disclosures should be reduced to annual rather than semi-annual. In practice, this information will not be changing mid-year due to availability of underlying data.

- **EU Taxonomy Templates 6-10:** As explained in this response, these templates should be removed, or at the very least, the scope and the dates of the reporting exemption should be aligned with the optional relief introduced by the European Commission's Delegated Regulation amending the Disclosures Delegated Act. Template 6-8 is a duplication of effort of what is already reported in the Management Report and so should be removed from Pillar 3; Template 9 is a voluntary table, with very little information supporting it (as the counterparties feeding into it are not required to report); and Template 10 does not contribute to risk management, and is unclear as to what should be included in it.
- **Qualitative disclosures on social and governance:** As we have explained in this response, all firms should be able to use the simplified disclosures (Table 1A) for Social and Governance, and the delineation between the two should be removed, as these are managed on a cross-cutting basis in many instances.

Section 1: General Approach to the Pillar 3 ESG Disclosures

(a) No-action letter

While the EBA confirmed at the public hearing that the interim guidance for Templates 6-10 (as set out in paragraphs 39 and 40 of the Consultation Paper) applies from the date of the Consultation Paper – meaning banks can make use of it now, including for reference reporting date 30 June 2025. However, we understand the final decision for banks to make use of this transitional provision is dependent upon the competent authorities agreeing to provide the flexibility as proposed in the consultation. Therefore, we would welcome the anticipated publication of a no-action letter confirming this position as soon as possible for competent authorities to take positive action that would allow banks to benefit from the transitional provision..

We also recommend that the suspension deadline for Templates 6-10 is aligned with the new relief for banks from taxonomy reporting until 31 December 2027 introduced by the Delegated Regulation adopted by the European Commission on 4 July[1]. It would therefore also be helpful if the EBA could clarify that the no-action letter relief applies until 31 December 2027.

(b) Clarifying whether any further expansion to the EBA ESG Pillar 3 ITS is planned

The EBA work programme states that a revision to the ITS for ESG disclosures is due to be released in Q3 2025 and suggests that "other environmental, S and G" disclosures may be introduced. It is not clear whether the EBA intends to further expand the Pillar 3 ESG disclosure requirements under Article 449a, beyond what is already proposed under this Consultation Paper, for instance to include quantitative disclosures on non-climate environmental, social and governance topics. Any additional expansion would clearly go against the Omnibus simplification objective and would not be welcome given the challenges under the existing Pillar 3 ESG framework.

We therefore recommend that the EBA clarify that it is does not intend to further expand the Pillar 3 ESG disclosures.

[1] See new paragraph 9 of Article 7 of the Disclosures Delegated Act introduced by article 1(6)(e) of the European Commission's Delegated Regulation adopted on 4 July

(c) Disclosure frequency

As noted above, we support the EBA's proposed approach, based on materiality principle under Article 432(1) CRR, to reduce the frequency (from semi-annual to annual) of specific templates (namely, the qualitative templates, and quantitative templates 3 and 6-10) for large, listed institutions.

We recommend extending the materiality principle outlined in Article 432(1) of CRR to reduce the frequency of templates 1, 2, 4 and 5 for large institutions from semi-annual templates (namely, quantitative templates 1, 2, 4 and 5 – notwithstanding our separate comments on these templates) to annual disclosures. In our view, semi-annual disclosures for these templates would result in immaterial updates of limited value to users, whereas annual disclosure for these templates would offer a simplified and more useful approach. We note that:

- ESG risks are generally longer-term in nature, and it is very unlikely that institutions will see material changes in ESG risk profile within a 6-month period, making semi-annual updates to any of these templates of limited incremental value to users.
- An annual disclosure approach would align with institutions' reporting cycles for other ESG-related disclosures (including under CSRD and ISSB frameworks). As these disclosures are leveraged for Pillar 3 reporting, an aligned annual disclosure approach would ensure consistency, reduce duplication, and also align with the broader Omnibus simplification agenda. We also note that the BCBS voluntary framework for the disclosure of climate-related financial risks takes an annual reporting approach.

In relation to the specific templates, for example:

- Template 1 relies heavily on counterparty-level emissions data. While our primary position is that disclosures on GHG financed emissions should be removed (see our comments on Template 1), nonetheless, we also note that such data is typically disclosed annually. The PCAF methodology, which underpins financed emissions calculations, is not designed for high-frequency updates. As a result, emissions values are unlikely to change materially on a semi-annual basis, even if portfolio composition shifts.
- Template 1 also requires reporting on exposures towards companies excluded from EU Paris-aligned Benchmarks and exposures to companies that are environmentally sustainable (CCM). While our primary position is that such disclosures should be removed (see our comments on Template 1), nonetheless, we also note that such data relies on counterparties being subject to CSRD and therefore will only published annually (if at all due to reduction in scope of CSRD).
- Template 2 includes EPC labels and energy performance scores. While our primary position is that the EPC label disclosures should be removed (see our comments on Template 2), nonetheless, we also note that data on EPC labels and energy performance is scores static or infrequently updated. EPC ratings are tied to physical building characteristics and are not subject to rapid change. Semi-annual disclosure of EPC data would offer little additional insight and impose unnecessary burden.

We acknowledge that the semi-annual disclosure requirement stems from the Level 1 text, and so to make annual disclosures the default frequency for Pillar 3, changes would also be required to the Level 1 text. The long-term ambition should be to make annual disclosures the default frequency through amendments to the Level 1 text. However, given the challenges involved in reopening the Level 1 text, we suggest the EBA provide greater flexibility in the interim by extending its materiality approach on annual disclosure frequency to all the quantitative templates.

Therefore, while we support the EBA's proposed approach of reducing the frequency of certain templates from semi-annual to annual, we recommend that the frequency of all ESG Pillar 3 disclosures (where such disclosures apply) be reduced to annual, based on the materiality principle.

(d) Scope of disclosing entities – large, non-listed institutions

We recommend additional proportionality for large, non-listed institutions. The requirements applicable to large institutions are the same for both listed and non-listed entities. However, the stakeholders interested in this information differ for these two groups. In our view, where an institution has no external investors, a more proportionate approach should be taken.

(e) Scope of disclosing entities – large subsidiaries

In our view, Pillar 3 ESG disclosures should maintain a consolidated focus and avoid imposing individual breakdown requirements on subsidiaries. Requiring individual ESG reporting at the subsidiary level is overly burdensome and complex, especially for non-EU entities. We further note that ESG policies, governance structures, and strategic objectives are generally established at the consolidated group level, and individual institutions within the group typically do not maintain separate or materially different ESG frameworks.

We acknowledge that the scope of Pillar 3 disclosing entities stems from the Level 1 text, and that there may be challenges involved in reopening the Level 1 text. However, given the concerns of subsidiary reporting being unnecessarily complex and potentially duplicative, we recommend (for instance) that the EBA consider relying on the materiality principle in order to alleviate the onerous reporting burdens on subsidiaries, and/or otherwise consider providing further guidance on this point.

Therefore, we recommend that the EBA provide a more proportionate approach towards subsidiaries such that:

- **Template disclosures for subsidiaries, including large subsidiaries, can be included as breakdowns within the consolidated information, rather than as standalone reports.**
- **The requirements for large subsidiaries only apply to large subsidiaries based in the EU, and should not apply to large subsidiaries based in third countries.**
- **Qualitative requirements for large subsidiaries can be removed where a report already exists at the consolidated group level.**

Section 2a: Pillar 3 ESG Quantitative Templates – General Recommendations:

Materiality: As a general comment, the quantitative templates lack a consistent approach to materiality. While the EBA has clarified that certain disclosures should be made where "material", this approach is not consistent across all the disclosures. For instance, we note the requirements for reporting all sectoral breakdowns (including immaterial ones) in Template 1, and for disclosing loans secured by collateral obtained by taking possession in Template 2 (even though such loans are typically de minimis for many institutions). The lack of a clear materiality approach would result in additional operational burden for institutions and disclosures that are not useful or meaningful for market participants.

We recommend that the EBA clarify that institutions should apply a materiality approach to all Pillar 3 ESG disclosures, in order to reduce the reporting burden on institutions and ensure that only material information is disclosed. Institutions should also be granted discretion in determining and substantiating which Pillar 3 ESG disclosures are material for them.

Section 2b: Pillar 3 ESG Quantitative Templates – Recommendations on Specific Templates:

Our specific comments on the quantitative templates are set out below. These comments all arise from common issues with the disclosures – including that the disclosures **(i)** do not meaningfully reflect an institution's credit risk exposure; **(ii)** duplicate other sustainability reporting; and/or **(iii)** heavily rely on estimates or proxies. **Where disclosures raise issue (i), we recommend that they be removed. Where disclosures do not raise issue (i), but raise issues (ii) or (iii), we recommend that they either be amended accordingly as we've proposed or removed.**

1. **Template 1**

Columns I – K (GHG emissions): We recommend that the disclosures of financed emissions be removed, for the reasons detailed below.

Absolute emissions metrics do not directly correlate to the likelihood of default and therefore do not provide meaningful information on a bank's credit risk exposure. A bank's credit risk exposure is linked to several factors including the bank's risk management procedures (such as the loan covenants or collateral required from the counterparty) and is ultimately limited to the length of the loan. Therefore, for example, a higher-emitting client may still present very little credit risk, if the transition risk to that client's business model is unlikely to materialize over the time horizon of the loan.

In addition, the data points in these columns largely duplicate information that will be reported under CSRD (under E-1 Climate Change) where assessed as material. Disclosing these data points in Pillar 3 is therefore overly burdensome and may also lead to inconsistencies in reporting where different approaches to the scope of activity and/or materiality are taken compared to CSRD.

Finally, these disclosures pose numerous challenges in terms of data availability. In particular, the calculation of financed scope 3 emissions is still under development and very limited data is available. There are also data challenges for certain sectors, such as the automative manufacturing sector and emerging decarbonizing technologies. Moreover, there remains a lack of access to data from value chain companies, particularly among smaller businesses (e.g. SMEs) and businesses in countries where reporting is less advanced (e.g., emerging markets and developing economies) but where emissions may be significant.

Given the numerous issues with these disclosures, our position is that they should be removed.

Notwithstanding the above recommendation, if the EBA intends to retain the GHG emissions columns, then we would propose amending this to report a combined scope 1 and scope 2 GHG emissions (not disaggregated as proposed in the Consultation Paper), in line with PCAF methodology. We also emphasise the importance of enabling a materiality approach, so that institutions are able to report such GHG emissions against the NACEs deemed relevant to their business.

Columns A-E and K-P (Use of "gross carrying amount"): We recommend that the scope of "gross carrying amount" here be modified to exclude debt securities and equity. We make the same recommendation for Column C under Template 3. The current proposed disclosure requires the breakdown of the "gross carrying amount" of loans and advances, debt securities and equity instruments to non-financial corporations, other than those held for trading. However, debt securities and equity securities values depend on the market value of those securities in a point in time and are by definition volatile. Therefore, the disclosure of "gross carrying amount" covering debt securities and equity securities values would not provide meaningful or consistent information and should be amended accordingly to remove these values.

Column B (Paris-aligned benchmarks): We recommend that this column be removed. This requires institutions to disclose exposures towards companies excluded from EU Paris-aligned Benchmarks. However, this disclosure is heavily reliant on counterparty reporting through CSRD. Given the Commission's proposed reduction in scope of CSRD, there will be limited information available for this disclosure. This would therefore necessitate significant reliance on proxies, which may lead to misleading disclosures for market participants.

Column C (Climate change mitigation): We recommend that this column be removed. Given the suspension of Taxonomy reporting under Templates 6-10, we recommend that this column be removed to align with that approach. Moreover, we note this disclosure would also pose various challenges if retained. As with Column B, this Column C disclosure is heavily reliant on counterparty reporting through CSRD, and given the reduction in scope of CSRD, there will be limited information available for this disclosure. Requiring institutions to make this disclosure with respect to counterparties who are not required to report Taxonomy indicators (the number of which will increase under the Omnibus) will again necessitate the increased use of proxies and lead to potentially misleading disclosures for market participants.

Additional comments on specific questions in the Consultation Paper:

- The EBA has asked for any comments on the proposed additions and deletions to the sector breakdown (Question 8). In our view, the ETH Zurich classification is not as straightforward to implement as the Consultation Paper suggests, and it is not clear if that it provides further value (noting that similar information is already contained under PAB-excluded exposures). Regarding the proposed breakdown, we do not agree with including:
    - **G 46.81 and G 47.3:** These data points do not reflect the production of a resource / an economic activity and are inconsistent with the rest of the template. These data points also run the risk of double counting – as they require institutions to make disclosures on exposures to wholesale/retail sale of certain products, in addition to existing disclosures on the manufacturing of those products.
    - **D 35.4:** Similar issues arise. These data points require institutions to make disclosures on exposures to brokers/agents for electric power and natural gas, in addition to existing disclosures on the manufacturing of such products.

  It may be helpful if the EBA could specify a consistent list of NACE codes for reporting exposures to fossil fuel sector entities in Templates 1 and 3 of the Pillar 3 disclosures (again, subject to a materiality approach).
- The EBA has asked for any comments with regards to the update of the templates to NACE 2.1 (Question 9). We do not agree with the proposed agricultural breakdown under **A.01 to A.03**, as this does not align with the overall simplification objectives. In addition, banks will need to build capability and capacity to introduce NACE 2.1 into all related reporting and we recommend regulators to be cautious of how quickly they embed new reporting initiatives and allow sufficient lead time for banks.
- The EBA has asked for any comments with regards to the NACE code K63 and whether it should be considered among those with significant climate impact in Template 1. We do not agree with including this NACE code, given the difficulties that would be involved in gathering data for this disclosure and identifying the energy sources for such activities.
- The EBA has asked for any comments on the inclusion of row "Coverage of portfolio with use of proxies (according to PCAF)" (Question 11). We do not agree with including this row. Such disclosure is unnecessary and is not aligned with the overall simplification objectives. This row also appears to be somewhat duplicative of the column to disclose "GHG emissions: gross carrying amount percentage of the portfolio derived from company-specific reporting". If this row were retained, then we it would be

helpful if the EBA could provide further clarification of the definition and scope of the term "proxies", given the PCAF methodology uses the term "estimates" instead. In particular, it would be helpful if the EBA could clarify whether "proxies" here is intended to align with the PCAF term "estimates" or a broader concept of "estimates". However, as explained above, given this row is duplicative, our primary position is that it should be removed.

2. **Template 2**

Rows 1.1 and 6.1 (Covered Bonds): We recommend removing the disclosure breakdowns for covered bonds, i.e. removing rows 1.1 and 6.1 from this Template 2. In our view, any ESG-related disclosures on covered bonds would be better addressed under the regulatory and disclosure framework for covered bonds.

We do not consider it appropriate to break down the information under the covered bonds category. The available data would be very limited; a pool of covered bonds is variable and very complicated to track. Furthermore, since the information is aggregated, we see little added value in such a breakdown, as it may not accurately reflect where a specific investor is exposed. Requiring these disclosures would impose additional burden on disclosing institutions, introducing additional details and complexity without delivering substantial added value, contrary to the Omnibus simplification objectives, and could additionally lead to misleading disclosures for market participants.

In our view, any disclosures on ESG risks associated with covered bonds should be considered and addressed in the regulatory and disclosure framework for covered bonds, and not under Pillar 3. If that is not possible, then following a materiality-based approach, we suggest that information on covered bonds could be reflected instead as part of the qualitative disclosures accompanying the templates.

Columns H-N (EPC Labels): We recommend deleting the EPC label disclosure requirements.

The lack of available data, along with the lack of standardisation criteria for these disclosures, would make producing reliable, comparable or meaningful disclosures near-impossible. There is limited data on energy efficiency levels and no reliable or comprehensive source for such information across the EU. There is also a lack of standardisation criteria to generate EPC labels and scores. In some jurisdictions (e.g. the UK), EPC scores are not required under law, and in others they only have a limited validity period (e.g. in France). Institutions would therefore need to rely on data estimates, and use their own methodologies to produce the scores, meaning that disclosures may be misleading and/or lack comparability. Such difficulties increase if we consider non-EU jurisdictions.

We also note that the BCBS does not mandate the use of EPC labels. Instead, it emphasizes the importance of providing information related to energy efficiency.

Additional comments on specific questions in the Consultation Paper:

The EBA has asked for any comments on whether rows 2, 3 and 4 and 7, 8 and 9 for the EP score should continue to include estimates or should it only include actual information on energy consumption, akin to the same rows for EPC labels (Question 17). In our view, these rows should only include actual information. The inclusion of estimates introduces a significant increase in the cost and complexity, with limited benefit for users of the data. Additionally, there is no consistency in the measurement and methodology of computing estimates.

The EBA has also asked for any comments on whether Template 2 should in addition include separate information on EPC labels estimated and about the share of EPC labels that can be estimated (Question 16). Notwithstanding the recommendations set out above to remove columns H-N, if the EBA does decide to retain these columns, we do not recommend introducing a new requirement to estimate data labels where this

information is not available through the EPC certificate. Reporting only actual information for EPC labels would also be consistent with the reporting under SREP.

3. **Template 3**

Columns H-L (Alignment Metrics): We recommend that the alignment metrics disclosures under Columns H-L either be removed, for the reasons below, or amended as we have suggested.

The alignment metrics in Template 3 require disclosure of portfolio decarbonisation targets set for alignment purposes. However, alignment scenarios represent a target outcome, not a stress scenario or prediction of what will happen. Moreover, as explained in relation to Template 1, emissions do not measure financial risk exposure. Therefore, climate-related targets for decreasing financed exposures do not provide an appropriate measure of a bank's transition risks. It would be misleading to the market for these disclosures to suggest that institutions are using portfolio decarbonisation targets as risk management tools. Our primary position is therefore that the alignment metrics should be removed.

If the alignment metrics are retained in this template, then:

- We would recommend that institutions be granted explicit flexibility to instead cross-refer to their existing transition plan and climate targets disclosures in their sustainability reports or the sustainability report of their ultimate parent.
- We would also recommend removing the references in the template to disclosing 2030 targets "in accordance with IEA NZE2050"; rather, the datapoint name and definition should clarify that the 2030 target is derived from the IEA NZE2050 scenario, or any other scenario in case IEA scenario is not available.
- It is also unclear whether the "2030 Target for the value of the intensity metric" refers to reporting the actual metric values or the percentage. Clarification on this point would be helpful.
- The "Point-in-Time (PiT) Distance to 2030 Target" may be difficult to interpret in the context of a financial institution's transition strategy. It may be helpful to simplify the methodology, so that this metric represents the remaining reduction needed to meet the 2030 target. For example, if Bank A has a NZE2050-aligned target of a 40% reduction by 2030 and has already achieved a 25% reduction, the metric should indicate that a further 15% reduction is required to stay on track.
- It would also be helpful to clarify whether the EBA considers the disclosure of these targets to constitute "commitments" or anticipated indicators instead.
- Where Template 3 is only populated where there are group level targets, extending this approach to look at all 18 sub-industries will require significant uplift and may not be consistent with the approach at the group level. Additionally, the materiality outcome may differ at the group level. We recommend providing flexibility in reporting to address these challenges.

However, our primary position remains that alignment metrics should be removed.

Column C (Gross Carrying Amount): Not all exposures will necessarily have a physical GHG intensity output. We therefore recommend that the instructions for this Column C make clear that the gross carrying amount reflects the value against the material sector(s) where a physical GHG intensity output is available. Alternatively, the EBA could consider inserting an additional column for the % of gross carrying amount covered in Column D, although for the purposes of simplification, we'd recommend amending the instructions as above.

Separately, see also our comment on Template 1.

Column D (GHG Intensity Metrics): The instructions for this template state that institutions are expected to disclose GHG intensity metrics for sectors within the 18 sub-industries identified by TCFD where material. Additionally, institutions are expected to disclose any other material sector for the bank not covered within the 18 TCFD sectors. **As the template is based on NACE sectors, we recommend that the EBA provide a clear mapping between TCFD and NACE sectors.**

Column E-F (Baseline year and intensity metric): These new columns will add complexity as there may be restatements / re-baselines that will need to be tracked. Also, the PCAF standards for Scope 3 emissions are still evolving, making historical calculations unreliable.

4. **Template 4**

We recommend that this template be removed, for the reasons below. If the template cannot be removed, then we recommend the EBA specify a single source for identifying the top 20 carbon-emitting companies, to ensure comparability between institutions' disclosures.

This template requires disclosure of the top 20 carbon-emitting companies in the world. However, as explained in our response to template 1, exposures to financed emissions (which would here include exposures to specific "top" carbon-emitting companies financed by the institution) do not directly correlate to an institution's credit risk and therefore are not relevant for Pillar 3 purposes.

Moreover, even if such disclosures were relevant, it would be impossible to ensure comparability, consistency, and transparency in disclosure under this template. There is no consistent reference source to identify the "top 20 carbon-emitting companies in the world". There are also, in theory, many ways to approach the assessment of a carbon-intensive company – for instance, based on only scope 1 of companies; 1 and 2; 1, 2, 3 upstream, or all scopes. Requiring this template as it stands would therefore lead to inconsistent disclosure among institutions, as they would need to select their own reference sources and approaches. In any event though, our primary position remains that this template is not relevant for Pillar 3 purposes and so should be removed. Besides, Basel Committee Pillar III ESG is similar to EBA's but has specifically removed top 20 most pollutants from their framework.

If this template is not removed, we would suggest the ITS specify a single source – such as the Carbon Majors database – for identifying the top 20 carbon-emitting companies, to ensure comparability between institutions' disclosures.

Additional comments on specific questions in the Consultation Paper:

The EBA has asked for any views on whether this template could be improved with some more granular information in the rows, by requesting e.g. split by sector of counterparty or other (Question 23). We note that it is likely that the top 20 firms would predominantly be in a single sector (e.g. oil & gas), and so we do not think that providing additional granularity would have any meaningful impact on this disclosure.

5. **Templates 5 and 5A:**

We recommend that these templates either be removed or amended and simplified – in particular, regarding the use of NUTS level breakdowns.

Information on an institution's physical risk exposures would not provide meaningful information for Pillar 3 purposes. As we have explained in relation to financed emissions exposures, exposures subject to physical risks also do not equate to the risk of financial loss. The impact of physical risks will differ depending on sectors and locations; for instance, in some sectors/locations, a physical risk may have a positive effect (e.g. creating the ability to grow a new crop), whereas in others it may have a negative effect (e.g. property damage

to manufacturing facilities). Moreover, an area may be subject to physical risk, but exposures there may not actually be at risk of financial loss. This is because again, an institution's financial risk exposure will depend on various factors (e.g. the client's climate-related insurance for such physical risk or guaranteed public compensation schemes). Aggregating physical risks and characterising them as indicative of financial risk is therefore likely to be misleading to investors.

We additionally note data availability issues, as well as the lack of a standard framework, for assessing physical risk exposures, which would create further challenges for such disclosures.

If the templates were retained, we would still recommend specific clarifications and changes to the disclosure requirements. In particular:

- We note that the EBA does not provide any guidance on the methodology to be used for disclosing the information under the templates. This absence of clear guidelines would make comparability across institutions difficult, potentially leading to inconsistencies in how institutions report this information. We would appreciate further clarifications from the EBA on this.
- The requirement to disclose NUTS level 3 breakdown for large institutions (under Template 5) and NUTS level 2 for other listed institutions and large subsidiaries (under Template 5A), is overly complex and burdensome, particularly for non-EU geographies. There are particular issues with the NUTS level 3 breakdown, which we have addressed in further detail below.
    - We do not believe the effort levels required to produce this template 12 times (the Consultation Paper sets out that this table should be separately produced for each of the Top 10 NUTS level 3 regions, for EU exposures and for total exposures) would be commensurate with any benefit that could be achieved from having this information. We therefore recommend reducing the number of templates required to be produced, in line with the Omnibus simplification objectives. Moreover, in line with an overarching materiality approach, institutions should have the flexibility to report fewer templates if certain geographies are not deemed material.
    - Fulfilling the NUTS level 3 disclosure requirement would necessitate having granular NUTS 3-level data available for the entire group. This would present significant challenges, especially in jurisdictions where equivalent regional classifications do not exist or are not aligned with the NUTS taxonomy. This would be disproportionately burdensome, entail significant operational costs, and be misaligned with the Omnibus simplification objectives.
    - The NUTS level 3 disclosure would be at too local of a level to provide a meaningful disclosure. Moreover, reporting based on top 10 exposures would not necessarily reflect the top 10 locations at risk of loss from physical risk, and so may not achieve what the disclosure is aimed to do. Such reporting also may be too granular to allow comparability.
    - Regarding the applicability of the NUTS 3 split in relation to corporate activities: the current framework does not adequately reflect the realities of corporate operations, as for example, a corporation may be headquartered in a European country while having production sites located in Asia. This disconnect can lead to misleading representations of risk exposure. Furthermore, the NUTS 3 classification is not necessarily suited for real estate activities within a global banking group, where assets and operations span multiple jurisdictions.
    - If the requirement for NUTS 3 breakdowns is not removed, we strongly suggest: (1) leaving flexibility when it comes to NUTS; and (2) developing separate templates for corporate and

retail activities. This differentiation would account for the distinct methodologies and types of assets involved in each sector, thereby enhancing the relevance and accuracy of disclosures.

- Determining the geographical location for non-collateralized exposures also raises challenges. If (notwithstanding the points made here) the EBA still wishes to retain NUTS level reporting, we would also / alternatively recommend applying NUTS level reporting only for collateralized loans.

- We do not believe that mandatory geographical breakdowns and climate hazard breakdowns should be necessary. Instead, in line with our broader comments on materiality, we advocate for a materiality approach that allows institutions to focus on disclosures that are relevant and significant to their specific circumstances. It may also be helpful to more clearly define the climate hazards, so financial institutions can assess data availability with external data vendors.
- We would also recommend removing references to "acute" and "chronic" events in the Template 5 table heading, given the template no longer contains disclosures related to "acute and chronic" physical risks.

One possible approach, again subject to the comments above, would be to use the simplified Template 5A for all firms. This would support the goal of simplification, while increasing the comparability across all reporting firms.

6. Templates 6-10

Our primary position, as articulated in AFME's position paper on the European Commission's Sustainability Omnibus proposals, remains that the Taxonomy disclosures, including GAR and BTAR, should be removed entirely from Pillar 3 reporting.

As we have explained in detail in that paper, the Taxonomy is not designed, and should not be used, as a risk management tool. Moreover, the GAR and the BTAR are not risk metrics and so should not form part of Pillar 3 disclosures. Ultimately, the Taxonomy-alignment of an asset does not directly correlate to its creditworthiness. At this stage, the interconnection between a more sustainable exposure and improved risk behaviour is not confirmed. Therefore, we advocate that Templates 6-10 be removed in their entirety from Pillar 3.

Moreover, inclusion of Taxonomy disclosures under Templates 6-10 is overly burdensome and inconsistent with the Omnibus simplification objectives. Templates 6-8 duplicate existing sustainability disclosures, while Templates 9-10 further increase the reporting burden by extending disclosure requirements beyond the EU Taxonomy. This also presents further data challenges for reporting entities – given for instance, for Template 9, the counterparties whose data feeds into this template are not required to report. For Template 10, it is also unclear how assets that fall outside the EU Taxonomy can be appropriately allocated to Taxonomy objectives.

However, in the absence of the removal of the Taxonomy disclosures, and as an interim measure, we welcome the suspension of reporting Templates 6-10, as we advocated for in our Omnibus position. If the GAR KPI is retained in Pillar 3 disclosure, then we support the proposed approach of direct alignment with the Taxonomy templates rather than having standalone Pillar 3 GAR templates. This reduces the burdens of institutions having to publish multiple GAR templates as well as the risk of inconsistencies across the templates and the resulting confusion for investors. However, we ask that the EBA confirm our understanding that Template 8 only refers to replicating the Template 4 of EU Taxonomy to reflect "GAR KPI flow" (and therefore banks would not be required to replicate Template 3 of EU Taxonomy to reflect "GAR KPI stock"). If the BTAR KPI is retained in Pillar 3 disclosure, then we support Template 9 being disclosed on a voluntary basis only. With regards to Template 10, if this template is retained, then we do not see the need for additional breakdowns by type of

environmental objective. We also note there will be cases of sustainability-linked loans that fall outside the EU Taxonomy, and/or don't neatly fit into one of the six Taxonomy objectives, so this breakdown would be unhelpful to the aims of the disclosure.

However, if the EBA does retain these templates and continue with the suspension approach, we strongly recommend the EBA clarify how the Pillar 3 suspension for Templates 6-10 and the reporting thereafter is intended to operate alongside the other reliefs that apply or are being proposed for Taxonomy reporting. We understand the EBA's intention for Pillar 3 reporting is broadly that: (i) only large institutions that conduct Article 8 Taxonomy reporting will need to report Templates 6-10; (ii) such institutions can also suspend reporting on Templates 6-10 until 2027; and (iii) Template 6-10 reports made thereafter can cross-refer to disclosures made by these institutions under Article 8 Taxonomy. However, under the Commission's Omnibus simplification package, the following proposals have been set forward:

- The scope of entities caught by CSRD, and therefore, the scope of entities required to carry out Article 8 Taxonomy reporting, will be reduced. The direction of negotiations on the Omnibus suggests that at a minimum EU firms with fewer than 1000 employees on an individual/consolidated basis will fall out of scope of both the CSRD and Article 8 Taxonomy reporting. Additionally, the "Stop-the-Clock" Directive will delay by two years CSRD reporting requirements for companies currently due to start reporting in 2026 (broadly, large EU undertakings and large non-EU issuers) and 2027.
- Even if an entity remains in scope of CSRD – if its net turnover is EUR 450m or less, then under the Commission's proposal, the entity would not be mandated to do Article 8 Taxonomy reporting. Instead, the Article 8 Taxonomy reporting regime will become voluntary (unless the entity claims to have Taxonomy aligned activities or activities which fulfil certain Taxonomy criteria).
- Moreover, even if a credit institution's net turnover is over EUR 450m (and so Article 8 Taxonomy reporting remains mandatory), the credit institution may still be exempt from reporting certain KPIs on a materiality basis (broadly, where the given KPI generates less than 10% of the credit institution's net turnover). Therefore, for example, a credit institution may decide not to report the GAR for the trading portfolio if the trading activities captured by this KPI generate less than 10% of its total net turnover.
- The Commission's amendments to the Taxonomy Disclosures Delegated Act in the Delegated Regulation adopted on 4 July provide optional relief for financial undertakings not to report detailed Taxonomy information and KPIs, including GAR templates, until 2028, until the Commission reviews in detail the Taxonomy disclosure rules and technical screening criteria. To take advantage of this optional relief, undertakings must publish a statement in the management report to indicate that they do not claim that their activities are associated with environmentally sustainable activities under the Taxonomy Regulation.

Therefore, it is not clear how large institutions should approach Templates 6-10 when: (a) they would now fall out of scope of Article 8 Taxonomy reporting under the new employee and revenue thresholds; (b) they remain in scope of CSRD but are only subject to "voluntary" Article 8 Taxonomy reporting (and therefore may decide not to report Article 8 Taxonomy / GAR at all); (c) they remain in scope of CSRD but decide not to report GAR on a materiality basis; or (d) they remain in scope of Article 8 Taxonomy / GAR reporting, but decide to rely on the optional relief from reporting until 2028.

In all these cases, where institutions are exempt from reporting under Article 8 Taxonomy (whether on a permanent or temporary, mandatory or voluntary basis), we strongly believe equivalent relief should be provided in relation to institutions reporting Templates 6-10 under Pillar 3. If the EBA does not provide such relief, this will lead to confusion in terms of institutions' reporting obligations and potentially overly burdensome reporting, undermining the objectives of the Omnibus. For instance, where an institution is relying on the optional relief for Article 8 reporting, it is unclear whether that institution will still need to complete Templates 6-10 on a standalone basis, even though it is not publishing Article 8 reports.

We therefore strongly urge the EBA to:

- **Update its Pillar 3 suspension and relief proposals such that the suspension deadline for Templates 6-10 is aligned with the new optional relief for financial undertakings from Taxonomy reporting until 31 December 2027 under the Taxonomy Disclosures Delegated Act as amended by the Delegated Regulation adopted on 4 July.**
- **Clarify that entities which fall out of scope of Article 8 Taxonomy reporting (or which elect to utilise optional relief under the revised Delegated Act) are exempt from Templates 6-10 disclosures under Pillar 3.**

Section 3: Pillar 3 ESG Qualitative Templates

We have several concerns with the proposed approach to the Pillar 3 qualitative disclosures. In particular:

- The Pillar 3 qualitative disclosures largely duplicate the information required in CSRD disclosures (whether at an entity or parent entity level). This creates additional burden and operational risk for disclosing institutions and adds no real value for market participants.
- The Pillar 3 qualitative disclosures are not sufficiently explicit in only requiring disclosure of qualitative information on material environmental, social and governance related financial risks. There are several places in the qualitative disclosure section that refer to "risk" rather than "material risk", which creates unnecessary uncertainty. Requiring qualitative disclosures of immaterial risks would be unnecessarily burdensome on reporting entities and would not provide useful information for market participants in assessing a bank's financial risk.
- The separation of E, S and G in the Pillar 3 qualitative disclosures is overly burdensome for disclosing entities and may result in misleading and/or redundant reporting for marketing participants. From an operational perspective, internal policies and processes are increasingly integrated, and in many cases, E, S and G issues are addressed cross-cuttingly.

We therefore recommend that:

- **Any Pillar 3 qualitative disclosures that duplicate CSRD reporting should be removed and/or the final ITS should expressly allow institutions to omit from Pillar 3 disclosures any disclosures that are already provided for in sustainability reporting. Pillar III should focus solely on requiring additional information that is strictly necessary from a prudential perspective, avoiding repetitive breakdowns that do not add value and only contribute to excessive reporting burdens.**

- **Where Pillar 3 qualitative disclosures are still required, they should be explicitly limited to disclosures in relation to *material* E, S and G risks in line with the approach taken for reporting under CSRD.**
- **The EBA should allow institutions greater flexibility in structuring their Pillar 3 qualitative disclosures. Given the focus on E risks (we note all of the quantitative disclosures are E related), we would suggest any requirements for the S & G disclosures for all institutions should at most be the Table 1A disclosures. Further, as management of S & G is typically cross cutting, there should also be an allowance to merge these rather than having a distinct separation which risks over emphasising an institution's efforts in an area.**

Section 4: Additional Comments on the Consultation Paper

(a) Shadow banking entities:

Definition of "shadow banking entities": In the Consultation Paper (page 30, para. 98) the EBA refers to "*the definition of shadow banking entities (that has been moved from Article 394(2) of the CRR2 to Article 4(1) (155) of the CRR 3)".*

This suggests that Art. 4(1)(155) CRR contains a true definition of shadow banking entities. However, in our view, this is not the case. The actual definition of a "shadow banking entity" can be found in the Shadow Banking RTS (Commission Delegated Regulation (EU) 2023/2779), which was issued according to Art. 394(4) CRR for purposes of Art. 394(2) CRR. Art. 4(1)(155) CRR simply repeats the old "high level wording" of Art. 394(2) CRR. However, the language in the Consultation Paper could be read to mean that Art. 394(4) CRR is now "obsolete" / "overwritten" by Art. 4(1)(155) CRR.

We therefore recommend that the EBA specifically clarify that the meaning of "shadow banking entity" is clarified by the Shadow Banking RTS, or at least amend the wording of the Consultation Paper in a way that does not give the impression that Art. 394(4) CRR (which is the basis for the RTS) is no longer relevant. We would also recommend the following amendments to the Consultation Paper: *98. In the absence of Basel disclosure standards on exposures to shadow banking entities, the EBA has developed a new disclosure template to implement the Article 449b of the CRR 3 by considering the following aspects: the definition of shadow banking entities (~~that has been moved from Article 394(2) of the CRR2~~ to Article 4(1) (155) of the CRR 3, as further specified in Delegated Regulation (EU) 2023/2779); the criteria for the identification of shadow banking entities set out in the RTS; the current reporting requirements on the ten largest exposures to shadow banking entities.*

Reporting: We seek confirmation from the EBA that aggregated shadow banking exposures should be reported considering individual counterparty exposures, not exposures for a "group of connected clients" (as used for large exposure purposes). Our understanding is that CRR requires reporting the sum of exposures identified at the individual counterparty (i.e. shadow banking entities) level. We also understand that the conclusions in the Final EBA Q&R - 2013_492 only apply to reporting requirements in the context of large exposure framework.

Additionally, it would be helpful to introduce materiality thresholds for disclosing shadow banking entity exposures, as requiring disclosure of all exposures could impose significant operational burdens on financial institutions. The setting of materiality thresholds could also facilitate increased comparability among disclosures from different groups.

Furthermore, since the Shadow Banking definition according to Commission Delegated Regulation (EU) 2023/2779 includes different type of counterparties with different risk profiles, it would be helpful to split up the total aggregate exposure according to the main categories of shadow banking entities (i.e. Money Market Funds, Alternative Investment Funds, other Not – Supervised Financial Entities (which includes Banks that fall behind Supervisory Regulations not compliant with Basel Principles) [2]

Implementation details for the C37.00 reporting template and country sheet requirements: Institutions will need to draw data from the C37.00 template; however, this template has not yet been published or consulted on. We ask that the EBA clarify the timings of the C37.00 template and accompanying instructions as soon as possible, including detailed rules for completing the country sheet and any materiality criteria.

Mapping tool: As the supervisory template C37.00 and its associated instructions have not yet been published, it is currently not possible to provide substantive feedback on the mapping tool. We therefore recommend that the EBA defers finalising the mapping tool until after the C37.00 template is available. We would expect that this template will be designed in a way to ensure consistency with the Pillar 3 SB1 disclosure template.

(b) Disclosure requirements on equity exposures:

We consider that the amended template EU CR 10.5 and the related instructions to be sufficiently clear. **For the sake of simplification, we would recommend that the amendments to the equity exposures template (i.e. Template EU CR10.5 Section 12, in Annex I) apply as soon as possible. We recommend that the starting reference date should be brought forward from 31 December 2026 to 31 December 2025.**

(c) Credit quality of loans and advances to non-financial corporations by industry (Template EU CQ5):

We note this template has been amended to reflect the new NACE classification code for economic activities. However, the EBA has also commented in the Consultation Paper that other minor changes to the Pillar 3 credit risk templates may be implemented after the public consultation, to keep alignment with the related Finrep templates under review. It is, therefore, unclear whether the start date for changes to this template could be later than 31 December 2026. If the start date were later, this would mean reporting entities would be required to maintain two different NACE classifications depending on the purpose of the data to be provided, which would be overly burdensome and result in confusing disclosures for market participants. **We recommend the EBA clarify that these amended disclosures will apply in line with the other reporting requirements.**

[2] Any entity that offers banking services or performs banking activities as set out in Article 2 and is not authorised and supervised in accordance with any of the Union acts listed in the Annex to this Regulation

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