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# EBA work on ESG risks and sustainable finance

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# EBA's roadmap on sustainable finance

EBA Roadmap (Decembre 2022) sets out **EBA's objective and approach** in the area of sustainable finance and ESG

**Continuity** from the EBA's first action plan but also **expansion** of the area of work

Overall objective is to build an adequate framework for EU banks and their supervisors to **mitigate ESG risks and support an orderly transition to a sustainable economy**

- ensuring a thorough but proportionate application
- fostering resilience of the EU banking sector and broader economy
- facilitating convergence at EU and international levels

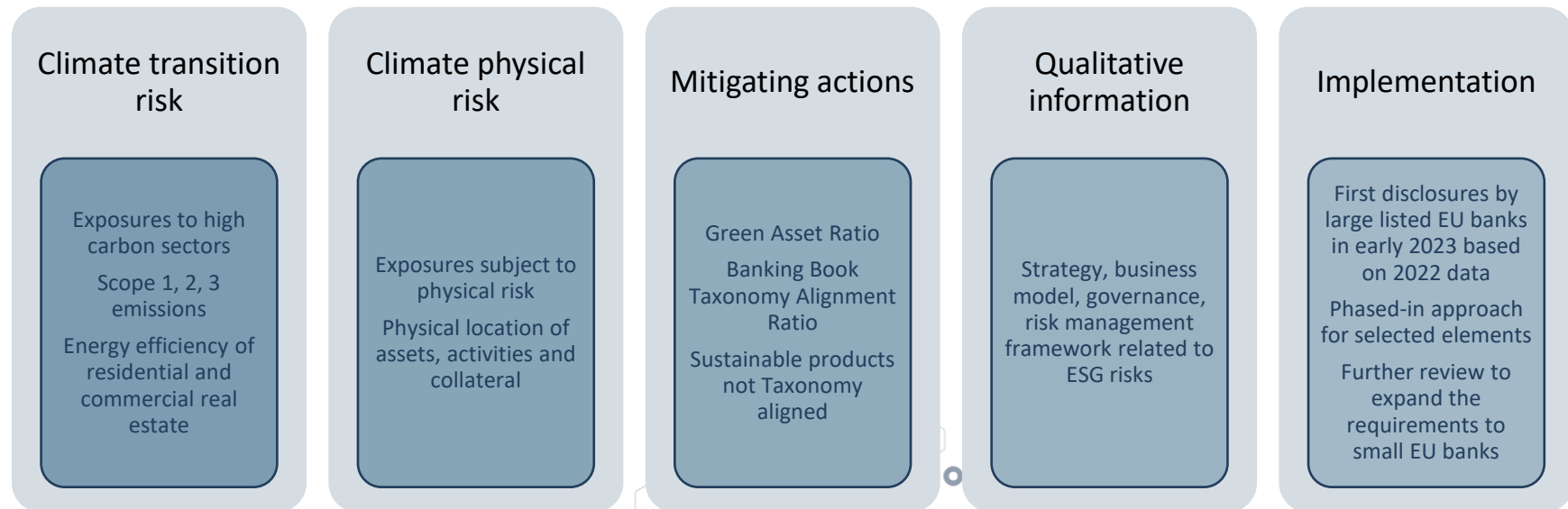
through a **holistic and sequenced approach**



Source: <https://www.eba.europa.eu/eba-publishes-its-roadmap-sustainable-finance>

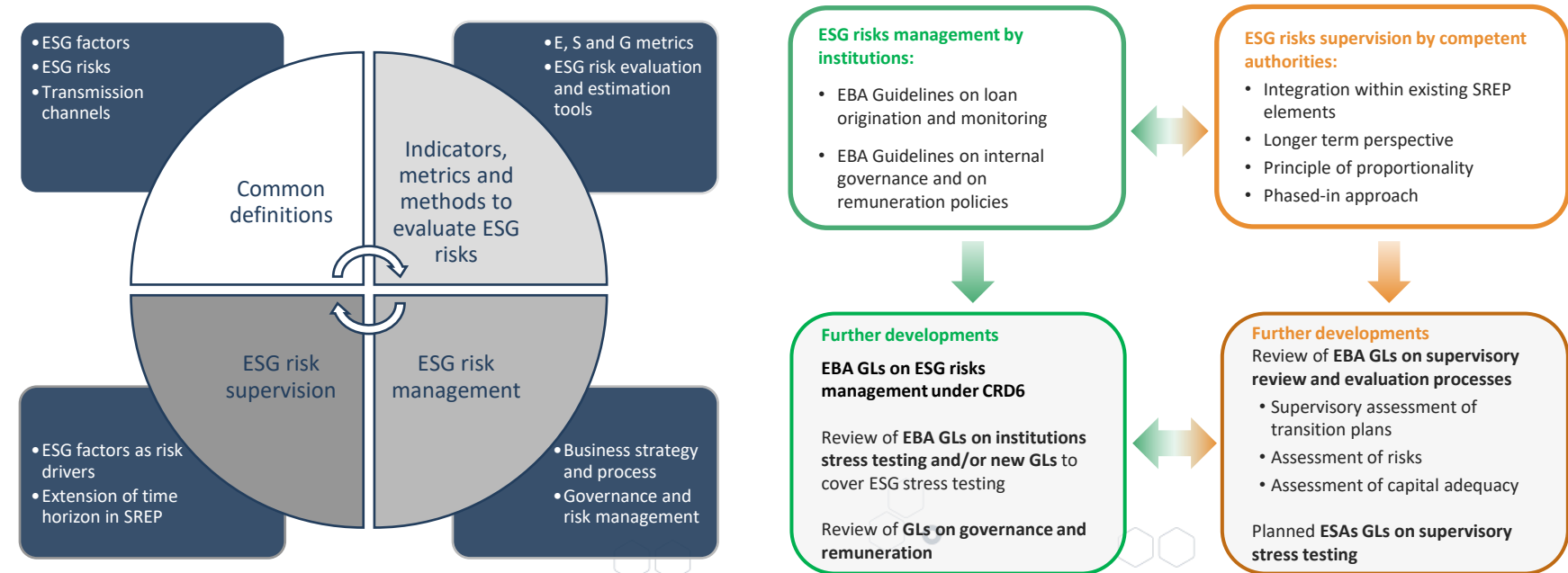
# ESG risks across the three pillars of the banking regulation: **Pillar 3** – disclosures on ESG risks

**Objective:** enhanced transparency on ESG risks through qualitative (E, S, G) and quantitative (E) information



# ESG risks across the three pillars of the banking regulation: **Pillar 2** – ESG risk management and supervision

**Objective:** ensure sound management of ESG risks by institutions and progressive integration into supervisory practices



# ESG risks across the three pillars of the banking regulation: **Pillar 1** – capital requirements for exposures subject to ESG risks

**Objective:** ensuring a robust prudential framework by assessing whether changes would be justified from a risk-based perspective

## Principles for the analysis

- Risk-based approach – resilience of the financial sector
- Holistic view – Pillar 1 is part of the overall framework
  - choose appropriate tools
  - avoid double counting

## Approach

- Analysis of existing mechanisms – identify what is not covered
- Consider forward-looking aspects
- Evidence-based approach – not only historical data but also potential scientific evidence

## Preliminary conclusions

- Better use of existing mechanisms needed
- Targeted enhancements to the framework rather than dedicated risk-weighted adjustment factors

# Standards and labels – EBA opinion on green loans and mortgages

Background: EU Commission's [Strategy for financing transition to a sustainable economy](#)

Focus of the EU Commission request: banks' unsecured and secured green loans to retail and SME borrowers

Four building elements of the request:

1. overview of green loans and related market practices
2. voluntary green loan definition based on the EU Taxonomy
3. measures to encourage and facilitate the uptake of green loans while ensuring the protection of retail borrowers
4. green loan origination practices

EBA report and opinion – delivered in December 2023

Industry survey to collect data and information on practices (83 banks from 27 countries with over 52% of total assets in EEA)

Evidence-based policy advice to the EU Commission:

- a voluntary green loan definition and a green loan label – a pragmatic and flexible approach
- link with EuGB and Taxonomy disclosures
- embedding in public support schemes
- specific advice related to the integration of green mortgages in the MCD
- need for further work on transition finance



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