

Position Paper

on Draft Guidelines on the management of ESG risks

Brussels, 18.04.2024

We are approaching this consultation with a broader perspective than just that of financial institutions, incorporating insights from the real economy. It is crucial to recognize that regulations affecting financial entities inevitably trickle down to impact the broader business landscape, including Skilled Crafts and SMEs in general.

Thus, the principle of proportionality, central to the consultation, must extend beyond financial institutions to encompass their business partners as well. Individual SMEs do not contribute significantly to the risk profiles of institutions and SMEs - especially those in the Skilled Crafts sector - face distinct challenges due to their size, operational scope, and resource constraints. For example, small-scale businesses in the Skilled Crafts sector often operate with limited personnel and financial resources, making it challenging to allocate resources for comprehensive ESG risk management initiatives. The relationship between the effort required to collect data and its usefulness is particularly significant for micro-enterprises, where the administrative burden of data collection outweighs the practical benefits derived from such efforts.

Moreover, Skilled Crafts businesses often work closely with smaller financial institutions such as savings banks, cooperative banks, or guarantee institutions, which themselves may be small or even SNCIs. These smaller financial institutions, including SNCIs, may not be obliged to use taxonomies, further limiting the applicability and relevance of the data collected by Skilled Crafts businesses and SMEs.

Instead of (indirectly) obliging SMEs to collect data, all banks and companies involved should be allowed to use estimated values and proxies. This could be in the form of portfolio-based assessments instead of borrower-specific assessments, or sector data.

The European Commission is addressing the challenge of excessive reporting demands on SMEs by for example proposing the development of optional and proportionate sustainability reporting standards, known as VSME, as part of the SME Relief Package.

This approach is a welcome step toward alleviating the reporting burden on SMEs while maintaining a balanced regulatory environment. So, the EBA should consider the Commission's position and ensure that its recommendations regarding ESG risks are not requiring banks to demand detailed data that go beyond the VSME scope and cannot be fulfilled by SMEs that will be affected as part of supply chains.

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The skilled crafts sector in Germany consists of more than one million mainly small and medium-sized enterprises and 5 million employees. It is an economic sector in its own right at the heart of the German economy. The purpose of the German Confederation of Skilled Crafts and Small Businesses (ZDH) is to develop and bring forward a common position on all major policy issues affecting crafts enterprises. It represents the overall interests of the skilled crafts sector vis-à-vis the Bundestag, the Federal Government and other authorities, institutions and organisations at national, European and international level. Find out more: www.zdh.de/english