

The logo for the European Banking Authority (EBA) is located in the top left corner. It features the letters 'EBA' in a large, white, sans-serif font. To the right of the letters, the words 'EUROPEAN BANKING AUTHORITY' are written in a smaller, white, sans-serif font, stacked vertically. The logo is set against a dark blue rectangular background with a subtle grid pattern.

EBA

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One-off Fit-for-55 climate risk scenario analysis

Risk Analysis and Stress Testing Unit

Public Hearing | 28 September 2023

Introduction

The main purpose of this presentation is to

- ✓ provide an **overview of the One-off Fit-for-55 climate risk scenario exercise** and its related process
- ✓ give further information on the **data collection and the related draft templates** for the banking sector module
- ✓ gather **preliminary feedback** on the contents of the templates and templates guidance from the industry to understand major difficulties in providing the requested data

Banks will have until the **11th of October** to provide written feedback through the official link on the EBA website

The written feedback should cover only definitions and data related questions on the templates and template guidance and should not cover methodological aspects of the exercise.

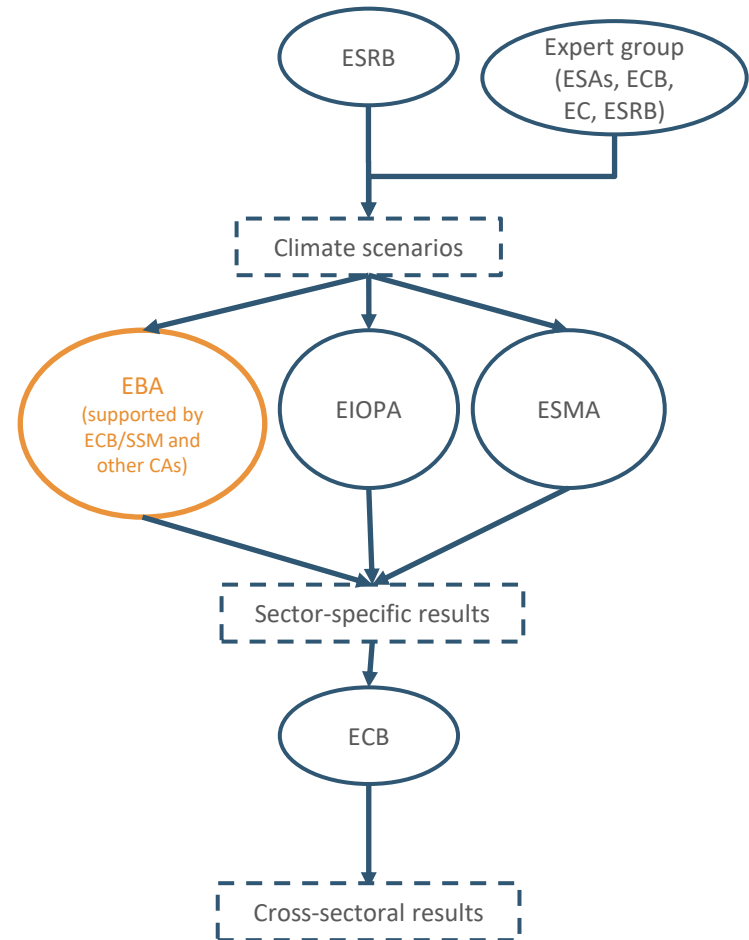


Agenda

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- Process of the banking sector module
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- Why running a data collection for the banking sector?
- Data collection overview
- Structure of the templates
- Instructions for populating the templates
- Feedback and questions
- Possible changes to the templates and TG based on EBA/ECB assessment
- Next steps

Background

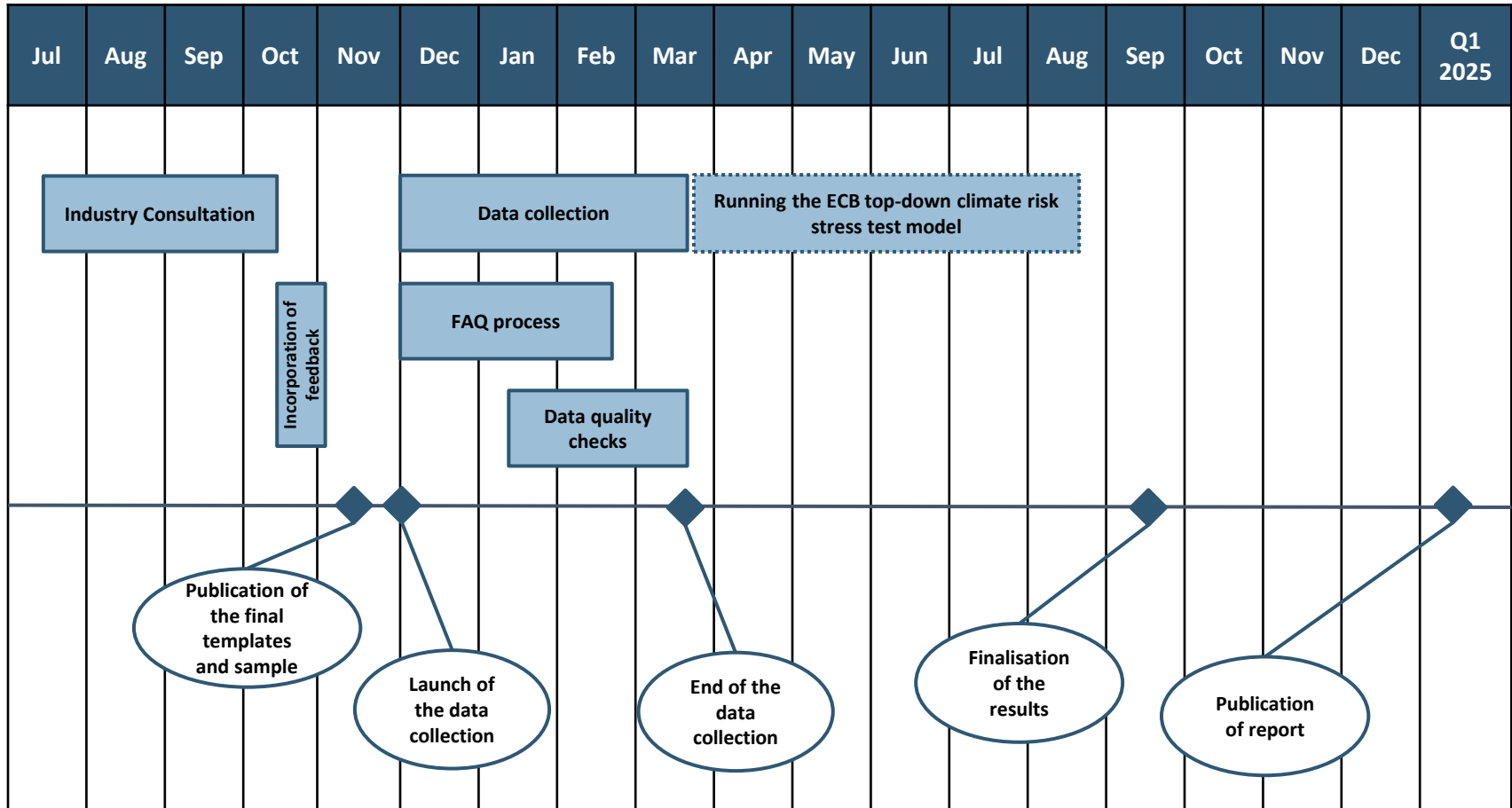
- On 8th March 2023, the EBA received a letter from the European Commission which, in line with its Renew Sustainable Finance Strategy (RSFS), asked ESAs, ECB and the ESRB to perform **a one-off climate risk scenario analysis exercise**.
- The primary focus is to **assess the resilience of the financial sector in line with the Fit-for-55 package**, while gaining insights into the capacity of the financial system to support the transition to a lower carbon economy even under conditions of stress.
- To fulfil this request, and produce the results for the banking sector, EBA is working in close collaboration with the ECB, the SSM and other CAs.



Process of the banking sector module

- The one-off exercise will be run in a **top-down fashion** for the 3 sectors involved. The banking sector module will be run by the EBA with the support of the SSM/ECB.
- **EBA will launch a data collection** to gather data from participating banks, through CAs, and use it **to feed a top-down model developed by the ECB**, to obtain the results for the banking sector.
- The data collection will be performed with ad-hoc templates developed by the EBA in conjunction with the ECB/SSM and other CAs. **The draft templates and template guidance for the data collection were shared with the industry** in July and are currently **under consultation**.
- The data collection will cover **corporate credit risk exposures and market risk exposure** (equity and bonds) for both EU and non-EU countries and Residential and Corporate Real Estate exposures for EU countries.
- The **results** for the banking sector will be disclosed at **aggregated level**.

High level timeline



◆ Milestone

Why running a data collection for the banking sector?

- The data collection is required to **overcome several data gaps and limitations** affecting the data currently available to EBA or to CAs:
 - ✓ **Available data does not have the required level of granularity** (e.g., supervisory reporting data has limited sector granularity) or doesn't **provide full coverage** of significant institutions' portfolios data (e.g., in AnaCredit and SHSG).
 - Collecting reliable starting point for risk parameters (PDs and LGDs).
 - ✓ **There is need for climate related data at firm level**: firm level emission data, energy consumption and transition plans would be needed to feed the top-down model used for the banking sector module.
 - ✓ Need to collect **counterparty level information** to i) assess concentration risk (in few large exposures (ii) to have a granular picture of the largest exposures and capture amplification mechanisms and second round effects.
 - ✓ Bridging existing **data gaps on real estate / households'** exposures.
 - ✓ **Need to collect physical risk data to make progress on physical risk assessment.**

Data collection overview

- The **data collection** will concern only starting point data as of **end of December 2022**. Data from all banks participating in the exercise will be collected by CAs and submitted to the EBA.
- The **sample of participating banks** will be composed by the same banks in the 2023 EU-wide ST plus additional banks selected by CAs based on banks relevance for this exercise. Around 110 banks will take part to the exercise. CAs have already informed participating banks.
- The **templates** aim at collecting aggregated and company level data on climate risk, covering both physical and transition risk. The following data is collected per risk area:

Credit Risk	Market Risk	Real Estate	Interest Income and Fee and Commission Income
<ul style="list-style-type: none"> • Company level data and aggregated data for Corporate Loan Exposures 	<ul style="list-style-type: none"> • Company level data and aggregated data for Corporate bonds Equities (incl. hedges) 	<ul style="list-style-type: none"> • Aggregated data for Residential and Corporate Real Estate Exposures 	<ul style="list-style-type: none"> • Aggregated data for Corporate loan exposures

- **Support to banks for filling in the templates:** the **template guidance** provides definitions for data fields and instructions on how to populate the templates. Additionally, a **FAQ process** will be implemented to address possible questions that may arise during the data collection process.
- The **final template and template guidance** will be published before the launch of the data collection.

Structure of the templates

- The **ad-hoc templates** are structured as follows:
 - ✓ **Instructions tab:** Provides guidance on template usage and version details.
 - ✓ **Input tab:** For entering bank information like name and countries of the counterparty.
 - ✓ **Calculation Support and Validation (CSV) tabs:** These tabs should be filled in by banks with the following data:

Section or topic	Template	Description
<i>Credit risk</i>	<i>CR_Top_Counterpart</i>	Company level data for some large selected companies* and for the top 15 counterparties of the main climate-relevant sectors.
<i>Credit risk</i>	<i>CR_Aggregated_Data</i>	Aggregated data for the five most important countries, in terms of exposure, and the main climate-relevant sectors.
<i>Interest and fees and commissions income</i>	<i>II_FCI</i>	Interest and Fees and Commission income figure for the five most important countries, in terms of income, and main climate-relevant sectors.
<i>Market risk</i>	<i>MR_Top_Counterpart</i>	Company level data for some large selected companies* and the top 15 counterparties of the main climate-relevant sectors aggregated by asset class (i.e., corporate bonds vs equity).
<i>Market risk</i>	<i>MR_Aggregated_Data</i>	Aggregated data for the main climate-relevant sectors and asset class (i.e., corporate bonds vs equity)
<i>Real Estate risk</i>	<i>RE_Transition_Risk</i>	RE exposures, potentially impacted by Transition risk, for the five most important countries, in terms of exposure, aggregated by asset class (RRE vs CRE) and EPC label
<i>Real Estate risk</i>	<i>RE_Physical_Risk</i>	RE exposures, potentially impacted by Physical risk, for the five most important countries, in terms of exposure, aggregated by asset class (RRE vs CRE) and NUTS 3 code

* Large selected companies here refers to select firms listed on the Euro Stoxx 50 index.

Feedback and Questions

Topic

Description

Before the launch of the data collection

Feedback from the industry

- Comments on the templates and template guidance should be **send to EBA by 11th of October** through the official link on the EBA website.
- Comments are expected to be constructive
- Comments should focus on definitions and data fields covered in the templates and template guidance.
- Comments should not cover the process or methodological aspects of the exercise.

After the launch of the data collection

FAQs from participating banks

Questions from participating banks should be addressed **via the EBA FAQ process:**

- FAQs should be submitted by banks via a dedicated FAQ template.
- FAQs should only cover questions on definitions or on data fields in both templates and template guidance. They can also concern technicalities related to CA's IT infrastructure.
- The EBA will provide to participating banks the official FAQ template along with more information on the FAQ process in due course.
- Comments should refrain from mentioning confidential information of the banks formulating the question (e.g., exposure amounts).

Possible changes to the templates and TG based on EBA/ECB assessment

- Hierarchy for reporting risk parameters in line with the EU-wide stress test: Prioritizing the use of PIT PD and PIT LGD, giving precedence to models employed for accounting provisions (e.g., IFRS 9) over IRB models (refer to Section 2.2 on Credit Risk)
- Requesting “original exposures” and not only “exposure value” for credit risk data (as in the 2020 EBA pilot exercise) (refer to Section 2.2 on Credit Risk)
- Extend the scope of the market risk template to fair value through other comprehensive income (FVTOCI) (refer to Section 2.4 on Market Risk)
- Within the II FCI template, change of the term “exposure value” (see 2.3 II_FCI) to “interest, fee and commission bearing exposures”.
- Change of the definition “remaining maturity” to exposure-weighted “residual maturity” (see 2.2 Credit Risk).

Next steps

- **11th of October 2023:** Deadline for written feedback to the EBA on templates and template guidance
- **Mid- October 2023 – End- October 2023:** Incorporation of the industry feedback
- **Early November 2023:** BoS approval of the templates and template guidance
- **Mid- November 2023:** Publication of final templates (including sample of participating banks) and template guidance
- **1st of December 2023:** Launch of the data collection for the banking sector module
- **15 March 2024:** End of the data collection

The timeline of the data collection (e.g., submission dates, DQCs timeline etc.) will be communicated to participating banks in due course.

QUESTIONS???

Instructions for populating the templates

Topic

Description

Formats

- Formatting of the templates is in line with the ones of the EU-wide ST (e.g., templates have a common colour code to flag different categories of cells etc.)

	Input cell to be filled by participating banks
	Calculation cell within a sheet
	Not to be filled in (may contain calculations)
	Row header or column header
	Additional identifiers to be used for the data extraction - cells hidden apart from row and column numbers

- When filling in the templates:
 - ✓ No changes should be made to the sheets or the structure of the file
 - ✓ A drop-down menu has been implemented for text input
 - ✓ For missing values, the field should be left blank.
 - ✓ Monetary amounts should be reported in million euros (rounded to two decimal places)
 - ✓ For non-EUR currency, the same exchange rates should be applied as for the COREP/ FINREP reporting
 - ✓ Percentage data should be reported in the format 'X.XX%', i.e., not in decimals.

Annex 1 – Data to be collected

Topic	Description
<p>Credit risk exposures</p>	<ul style="list-style-type: none"> <p>▪ Company level data for Euro Stoxx 50 index and for the 15 top counterparties of each climate-relevant sector:</p> <ul style="list-style-type: none"> ✓ Company’s information (e.g., name, NACE 4 sector (based on its principal activity)) ✓ Credit risk information (e.g., exposures value, PDs, LGDs) ✓ Climate related information (e.g., absolute emissions (scope 1,2,3,), energy consumption) ✓ Financial information (e.g., total assets, total revenues) <p>▪ Aggregated data for the 5 top countries (EU and five selected non-EU countries) in terms of exposures and split by climate-relevant sector:</p> <ul style="list-style-type: none"> ✓ Credit risk information (e.g., exposures value, PDs, LGDs) ✓ Climate related information (e.g., weighted average GHG emission intensity)

Annex 2 - Data to be collected

Topic	Description
<p>Market risk exposures</p>	<ul style="list-style-type: none"> <p>▪ Company level data for Euro Stoxx 50 index and for the 15 top counterparties of each climate-relevant sector and for each asset class (bond and equity):</p> <ul style="list-style-type: none"> ✓ Company’s information (e.g., name of the issuer, NACE 4 sector (based on its principal activity)) ✓ Market risk information (e.g., notional amount, fair value) ✓ Climate related information (e.g., absolute emissions (scope 1,2,3,), energy consumption data) ✓ Financial information (e.g., total assets, total revenues) <p>▪ Aggregated data for the 5 top countries (EU and 5 selected non-EU countries) in terms of exposures for each asset class (bond and equity) and split by climate-relevant sector</p> <ul style="list-style-type: none"> ✓ Market risk information (e.g., fair value, average duration) ✓ Climate related information (e.g., weighted average GHG emission intensity) ✓ Financial information (e.g., average first order sensitivity of hedging instrument)

Annex 3 - Data to be collected

Topic	Description
<p>Real estate exposures</p>	<ul style="list-style-type: none"> ▪ Aggregated data for the 5 top countries (EU and 5 selected non-EU countries) in terms of exposures to transition risk and split by asset class (RRE and CRE) and EPC bucket: <ul style="list-style-type: none"> ✓ Real Estate risk information (e.g., share of proxies out of total EPC data (%)) ✓ Financial information (e.g., aggregate market value of properties, exposure value) ▪ Aggregated data for the 5 top countries (EU and 5 selected non-EU countries) in terms of exposures to physical risk and split by asset class (RRE and CRE) and NUTS 3 Code: <ul style="list-style-type: none"> ✓ Financial information (e.g., aggregate market value of properties, exposure value)
<p>Interest Income and Fee and Commission Income</p>	<ul style="list-style-type: none"> ▪ Aggregated data for the 5 top countries in terms of income and split by NACE 2 sector: <ul style="list-style-type: none"> ✓ Interest income ✓ Fee and commission income ✓ Exposures (interest generated)

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