EBA/GL/2020/13

30 September 2020

Final guidelines

on the appropriate subsets of sectoral exposures to which competent or designated authorities may apply a systemic risk buffer in accordance with Article 133(5)(f) of Directive 2013/36/EU

Contents

1. Executive Summary

According to Article 133 (6) of the fifth Capital Requirement Directive (CRD V), the EBA is mandated, after consulting the European Systemic Risk Board (ESRB), to issue guidelines by 30 June 2020 on the appropriate subsets of the four sectoral exposures of the systemic risk buffer (SyRB), as defined in the same article. Due to the COVID-19 outbreak, the issuance of these guidelines was postponed to 30 September 2020. With the introduction of a sectoral SyRB, national competent or designated authorities (relevant authorities) can use the SyRB to target systemic risk in a broad sense (SyRB for all exposures) as well as to target systemic risk in specific sectors or subsets of these sectors.

The objective of the guidelines is to set a common framework to harmonise the design of the appropriate subsets of sectoral exposures to the application of an SyRB, facilitating a common approach throughout the EU, but also supporting reciprocation of the SyRB measures between Member States. These guidelines are meant to support relevant authorities in defining the specific subsets of sectoral exposures to which the SyRB may be applied.

The guidelines recommend a common framework in which relevant authorities can define subsets specific to their needs. This is done by employing three dimensions: type of debtor or counterparty sector, type of exposure and type of collateral. In addition, if deemed appropriate, duly justified and proportionate when targeting systemic risk, the relevant authorities may supplement these dimensions with three sub-dimensions: economic activity, risk profile and geographical area. The guidelines include detailed definitions of elements used in each dimension and sub-dimension, along with examples of application.

A pre-condition when defining a subset of sectoral exposures in the application of a sectoral SyRB is the systemic relevance of the risks stemming from the subset of sectoral exposures according to a qualitative and quantitative assessment conducted by the relevant authority. The guidelines recommends three criteria to be used in such assessment: size, riskiness and interconnectedness. In addition, the relevant authority should aim to disclose the approach used in its assessments following the provisions of the guidelines. In general, transparency can help banks manage their risks - and hereby their capital planning - and support decisions on reciprocity between Member States.

The guidelines also highlight how the enhancements in the scope of the SyRB introduced under CRD V (the ability to use multiple SyRBs and the introduction of domestic sectoral SyRBs targeting specific sectors or subsets of exposures to compensate for the fact that Pillar 2 capital requirements could no longer be used for macroprudential purposes) have increased the flexibility of the SyRB, but have also brought potential challenges. For this reason, the guidelines advocate appropriate coordination and cooperation between the competent authority and the designated authority in order to avoid the risk of overlaps, double counting and inefficient risk targeting. The relevant authority should avoid inconsistent uses of instruments and unwarranted interactions by ensuring that other active macroprudential and microprudential measures are taken into account when calibrating and activating the sectoral SyRB. With this in mind, the common framework presented in these guidelines tries to ensure a harmonised yet flexible application of the sectoral SyRB. The predetermined dimensions should also ensure that this flexibility does not yield an excessive degree of complexity and difficulty in reciprocation.

Any relevant authority should apply the sectoral SyRB in a way that strikes the right balance between the need to address the relevant systemic risk stemming from sectoral exposures and the importance of its not becoming too complex. Overall, the application of a sectoral SyRB is a balance between the costs such measures can bring and its benefits to financial stability in the EU.

According to Article 16(3) of Regulation (EU) No 1093/2010, competent authorities must notify the EBA as to whether they comply or intend to comply with these guidelines, or otherwise with reasons for non-compliance, by 10.01.2021.

Next steps

The guidelines will be translated into the official EU languages and published on the EBA website. The deadline for competent or designated authorities to report whether or not they comply with the guidelines will be two months after the publication of the translations. The guidelines will apply from 29 December 2020.

2. Background and rationale

1. As a step towards completing the European-post crisis regulatory reforms, the revised EU capital regulation for banks (the banking package) was adopted in 2019 to reinforce banks' ability to withstand potential shocks. This resulted in the revision of existing capital requirements as well as the introduction of new rules including outstanding elements from internationally agreed standards.

2. In the fourth Capital Requirements Directive (CRD IV), macroprudential tools were introduced to strengthen the resilience of the banking sector against future financial crises. One of these was the systemic risk buffer (SyRB). The purpose of the tool was to be an instrument that could be applied to all or a subset of banks in order to prevent and mitigate structural systemic risks of a long-term, non-cyclical nature inherent in the balance sheet of European banks.

3. Four years later, building on the experience gained on the use of the macroprudential toolkit, the fifth Capital Requirements Directive (CRD V) included targeted changes to the macroprudential provisions. The new banking package turned Pillar 2 into a purely microprudential tool, clarifying its institution-specific nature and further streamlining its application. This change was offset by increased flexibility in macroprudential capital buffers, including a more targeted use of the SyRB.

4. The SyRB can now be applied in a sectoral manner. At the same time, the reference to long-term non-cyclical systemic risks was removed from the SyRB's definition and a clear distinction of roles between the SyRB and other capital buffers (the counter-cyclical capital buffer, CCyB, and the global systemically important institutions, G-SII, or other systematically important institution, O-SI, buffer in particular) was outlined in CRD V.

5. The aim of the sectoral SyRB, as a macroprudential tool, is to allow authorities to target specific systemic risks that are inherent in banks’ exposures at a sectoral level. Notwithstanding, the sectoral SyRB should not be treated as a microprudential tool.

6. The sectoral SyRB is considered a targeted tool. Compared with broader instruments, targeted tools might be more effective as they target only the specific risk and relevant exposures, minimizing unintended side effects and improving cost-effectiveness as well as banks' capital allocation. They also increase the incentive for credit institutions to reduce the targeted exposures. For the same reasons, targeted tools can also reduce inaction bias.

7. CRD V defines four specific high-level sectoral exposures to which a SyRB can be applied[1]:

   (i) all retail exposures to natural persons which are secured by residential property;

[1] Article 133(5)(b) of Directive 2013/36/EU as amended by Directive (EU) 2019/878.

(ii) all exposures to legal persons which are secured by mortgages on commercial immovable property;

(iii) all exposures to legal persons excluding those specified in point (ii);

(iv) all exposures to natural persons excluding those specified in point (i).

8. The EBA is mandated, after consulting the ESRB, to issue guidelines by 30 June 2020 on the appropriate subsets of exposures to the four sectoral exposures referred to above, to which an SyRB may be applied. However, due to the COVID-19 outbreak, the issuance of these guidelines was postponed to 30 September 2020.

9. Three common characteristics can be drawn from the four high-level sectoral domestic exposures mentioned in paragraph 7: exposure, debtor and collateral. As any subset of exposures subject to these guidelines cannot be broader in scope than any of the four sectoral exposures, any subset must at least include these three characteristics.

10. When activating an SyRB (or sectoral SyRB), the relevant authority must include in the notification of the measure to the ESRB[2] the following explanations, among other requirements[3]:

   i) a description of the macroprudential or systemic risk the buffer is intended to target;

   ii) the reasons why such risk threatens the stability of the financial system;

   iii) an assessment of why the activated SyRB (or sectoral SyRB) is considered to be effective and proportionate to mitigate such risk.

11. A combined SyRB rate above 3%, which results from the setting of an SyRB rate or SyRB rates on any subset of exposures, requires an opinion from the Commission, while a combined SyRB rate above 5% requires an authorisation[4]. At the same time, the SyRB rate is cumulative with the O-SII or G-SII buffer rate. When the sum of an O-SII or G-SII buffer rate and of a combined SyRB rate results in a combined buffer rate higher than 5%, an authorisation from the Commission is also required[5].

12. The approach taken in these guidelines when defining the subset of exposures for the application a sectoral SyRB leans on the following three principles:

- Systemic relevance: the risk to which the chosen subset of exposures is subject must be of a systemic nature in the country of activation.

[2] When the institution to which one or more SyRB apply is a subsidiary the parent of which is established in another Member State, the competent authority or the designated authority must also notify the authorities of that Member State.

[3] Article 133(9) of Directive 2013/36/EU as amended by Directive (EU) 2019/878.

[4] Article 133(11) and (12) of Directive 2013/36/EU as amended by Directive (EU) 2019/878.

[5] Article 131(15) of Directive 2013/36/EU as amended by Directive (EU) 2019/878.

- Flexibility: it is necessary to target the appropriate subset of exposures and their systemic risks considering the heterogeneity of the real estate markets, banking sectors and other economic sectors across the EU.

- Consistency between jurisdictions: SyRB application should be consistent across the EU, so a degree of harmonisation is needed, especially for reciprocation by other Member States.

13. Taking into account the three principles above, the application of a sectoral SyRB should, where possible, avoid excessive complexity. This would ease implementation and monitoring of the instrument as well as clear communication.

3. Guidelines

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30 September 2020

Guidelines

on the appropriate subsets of sectoral exposures to which competent or designated authorities may apply a systemic risk buffer in accordance with Article 133(5)(f) of Directive 2013/36/EU

1. Compliance and reporting obligations

Status of these guidelines

1. This document contains guidelines issued pursuant to Article 16 of Regulation (EU) No 1093/2010[6]. In accordance with Article 16(3) of Regulation (EU) No 1093/2010, competent authorities and financial institutions must make every effort to comply with the guidelines.

2. Guidelines set the EBA's view of appropriate supervisory practices within the European System of Financial Supervision or of how Union law should be applied in a particular area. Competent authorities as defined in Article 4(2) of Regulation (EU) No 1093/2010 or, where different, designated authorities referred to in Article 133(3) of Directive 2013/36/EU[7], to whom these guidelines apply should comply by incorporating them into their practices as appropriate (e.g. by amending their legal framework or their supervisory processes), including where guidelines are directed primarily at institutions.

Reporting requirements

3. According to Article 16(3) of Regulation (EU) No 1093/2010, competent or designated authorities must notify the EBA as to whether they comply or intend to comply with these guidelines, or otherwise with reasons for non-compliance, by 10.01.2021. In the absence of any notification by this deadline, competent or designated authorities will be considered by the EBA to be non-compliant. Notifications should be sent by submitting the form available on the EBA website to compliance@eba.europa.eu with the reference 'EBA/GL/2020/13'. Notifications should be submitted by persons with appropriate authority to report compliance on behalf of their competent or designated authorities. Any change in the status of compliance must also be reported to the EBA.

4. Notifications will be published on the EBA website, in line with Article 16(3).

[6] Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC, (OJ L 331, 15.12.2010, p.12).

[7] Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (OJ L 176, 27.6.2013, p.338).

2. Subject matter, scope and definitions

Subject matter

5. These guidelines specify, pursuant to Article 133(6) of Directive 2013/36/EU, the appropriate subsets of sectoral exposures to which the relevant authority may apply a systemic risk buffer (SyRB) in accordance with Article 133(5)(f) of that directive.

6. In addition, these guidelines further specify the application of the systemic risk buffer (SyRB) to those subsets of sectoral exposures in accordance with Article 133 of Directive 2013/36/EU, in particular, the systemic relevance of the risks stemming from these sectoral exposures, the interaction of the sectoral SyRB with other macroprudential measures and reciprocity.

Scope of application

7. These guidelines apply in relation to the imposition on institutions by the relevant authority of a requirement to maintain an SyRB under Article 133 of Directive 2013/36/EU to a subset of any of the sectoral exposures located in a Member State identified in Article 133(5)(b) of that directive.

Addressees

8. These guidelines are addressed to competent authorities as defined in point (i) of Article 4(2) of Regulation (EU) No 1093/2010 or, where different, designated authorities referred to in Article 133(3) of Directive 2013/36/EU (both referred to as 'relevant authorities').

Definitions

9. Unless otherwise specified, terms used and defined in Directive 2013/36/EU or Regulation (EU) 575/2013[8] have the same meaning in the guidelines. In addition, for the purposes of these guidelines, the following definitions apply:

   'Commercial immovable property' means any immovable property that is not a residential property within the meaning of Article 4(1)(75) of Regulation (EU) 575/2013.

   'Credit for consumption' means credit for consumption as defined under category 2 of Part 2 of Annex 2 to Regulation (EU) No 1071/2013 of the European Central Bank[9].

   'Dimension of an exposure' means a specific characteristic of an exposure.

   'Element of a dimension of an exposure' means a subdivision of a dimension of an exposure.

[8] Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p.1).

[9] Regulation (EU) No 1071/2013 of the European Central Bank of 24 September 2013 concerning the balance sheet of the monetary financial institutions sector (recast) (ECB/2013/33) (OJ L 297, 7.11.2013, p. 1).

'Financial corporation' means a financial corporation as defined in paragraph 2.55 of Annex A to Regulation (EU) No 549/2013[10].

'FX loan' means FX lending as defined in the EBA Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP) and supervisory stress testing[11].

'General government' means a general government as defined in paragraph 2.111 of Annex A to Regulation (EU) No 549/2013.

'Institutional unit' means an institutional unit as defined in paragraph 1.57 of Annex A to Regulation (EU) No 549/2013.

'Legal person' means a legal entity as defined in point (5) of Regulation (EU) 2016/867 of the European Central Bank[12].

'Natural person' means a household as defined in paragraph 2.118 of Annex A to Regulation (EU) No 549/2013.

'Non-financial corporation' means a non-financial corporation as defined in paragraph 2.45 of Annex A to Regulation (EU) No 549/2013.

'Non-performing' refers to the categorisation of an exposure as non-performing pursuant paragraphs 213-219 of Part 2 of Annex V to Commission Implementing Regulation (EU) No 680/2014[13].

'Relevant authority' means the competent authority or the designated authority, as applicable, referred to in Article 133(3) of Directive 2013/36/EU.

'Residential property' means a residential property as defined in point (75) of Article 4(1) of Regulation (EU) No 575/2013.

'Retail exposures' means exposures hat are eligible for the retail exposure class in accordance with Article 123 of Regulation 575/2013.

'Sectoral exposures' means the exposures categories identified in point (b) of Article 133(5)(b) of Directive 2013/36/EU.

[10] Regulation (EU) No 549/2013 of the European Parliament and of the Council of 21 May 2013 on the European system of national and regional accounts in the European Union (OJ L 174 26.6.2013, p. 1).

[11] EBA/GL/2014/13, as amended.

[12] Regulation (EU) 2016/867 of the European Central Bank of 18 May 2016 on the collection of granular credit and credit risk data (ECB/2016/13) (OJ L 144, 1.6.2016, p. 44).

[13] Commission Implementing Regulation (EU) No 680/2014 of 16 April 2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council (OJ L 191, 28.6.2014, p. 1).

'Total debt-to-EBITDA ratio' means the ratio of total debt to EBITDA as defined in Section 3 of the ECB Guidance on leveraged transactions (May 2017).

'Unsecured exposure' means an exposure that is not secured by a lien, mortgage or other security to be used in case the debtor fails to make payment.

3. Implementation

Date of application

10. These guidelines apply from 29 December 2020.

4. Criteria for the identification of subsets of sectoral exposures

11. Subject to Sections 5 and 7, when applying an SyRB in accordance with Article 133(4) and (5)(f) of Directive 2013/36/EU, relevant authorities should identify a subset or subsets of sectoral exposures by combining one element or subelement from each of the following dimensions of exposures:

    a. type of debtor or counterparty sector;

    b. type of exposure; and

    c. type of collateral

    The list of elements, including their breakdown, under each dimension is specified in Section 6.

12. In addition to the minimum set of dimensions referred to in paragraph 11, relevant authorities may, where appropriate, duly justified and proportionate in order to prevent and mitigate macroprudential or systemic risks, as referred to in Article 133(1) of Directive 2013/36/EU, further combine the selected elements or subelements of the dimensions referred to in paragraph 11 with one element or subelement from any of the following correlated subdimensions, as follows:

    a. economic activity (for the element ‘legal person’ of the dimension ‘type of debtor or counterparty sector’);

    b. risk profile (for the dimension ‘type of exposure’); and

    c. geographical area (for the dimension ‘type of collateral’).

    The list of elements under each subdimension, including their breakdown, is specified in Section 6.

13. By way of derogation from paragraph 12, relevant authorities may combine, if deemed necessary, two elements from the subdimension ‘risk profile’ provided that the risks stemming from the targeted subset of sectoral exposures are systemically relevant according to Section 5.

14. Examples of possible combinations of elements and subelements of the dimensions and subdimensions referred to in this section are included in Annex 2.

5. Criteria for assessing the systemic relevance of the risks stemming from the subsets of sectoral exposures

15. When identifying a subset of sectoral exposures to which relevant authorities may apply an SyRB, relevant authorities should consider whether it is justified to activate a sectoral SyRB on the basis of the systemic relevance of the risks stemming from the subset of sectoral exposures they want to target, taking into account the different sources from which these risks can arise from a national financial stability perspective, and avoid an excessively granular application of the sectoral SyRB.

16. For the purpose of paragraph 15, relevant authorities should make a quantitative and qualitative assessment of the systemic relevance of the risks stemming from the subset of sectoral exposures, including, where appropriate, the setting of materiality thresholds.

17. When carrying out the assessment mentioned in paragraph 16, relevant authorities should take into account the following criteria:

    a. size;

    b. riskiness; and

    c. interconnectedness.

5.1. Size

18. Relevant authorities should consider whether the size of the targeted subset of sectoral exposures can give rise to a serious risk to the financial system and the real economy in a specific Member State. For these purposes, relevant authorities may take into consideration the relative size of the subset to the total assets of the domestic banking system, to the total risk-weighted assets of the domestic banking system, to the total capital of the domestic banking system, and to the GDP of the domestic economy. Relevant authorities may also take into account, where relevant, other considerations such as the market structure for certain exposures.

5.2. Riskiness

19. Relevant authorities should consider whether the credit, market and liquidity risk of the targeted subset of exposures is correlated with the magnitude of losses stemming from this subset. Possible measurements of riskiness may take into consideration historical loss/impairment rates, PD/LGD developments, value adjustments and market developments. Forward-looking indicators including losses under adverse macroeconomic developments may also be considered, given the pre-emptive nature of macroprudential buffers.

5.3. Interconnectedness

20. Relevant authorities should consider whether other subsets of exposures or financial market actors depend directly and/or indirectly on the targeted subset of sectoral exposures and whether the materialisation of risk in the targeted subset could lead to negative direct and/or indirect material spillover effects to other exposures or to financial market actors.

6. Classification of dimensions and sub-dimensions

21. The dimensions and subdimensions of a subset of sectoral exposures referred to in Section 4 should include the elements specified in this section. An overview of the dimensions and correlated subdimensions and their elements that should be used to identify a specific subset of a sectoral exposure in accordance with these guidelines is included in Annex 1.

6.1. Type of debtor or counterparty sector

22. The dimension ‘type of debtor or counterparty sector’ should include two mutually exclusive elements:

6.1.1. legal person; or

6.1.2. natural person.

23. The element ‘legal person’ should include the following subelements:

6.1.1.1. non-financial corporations;

6.1.1.2. financial corporations; and

6.1.1.3. general government.

6.1.a. Economic activity

24. The subdimension ‘economic activity’ should include the economic activities identified by an alphabetical code in the first level (sections) of the common statistical classification of economic activities in the European Community (NACE Revision 2) as set out in Annex 1 to Regulation (EC) No 1893/2006[14].

6.2. Type of exposure

25. The dimension 'type of exposure' should include the following elements:

6.2.1. all exposures;

6.2.2. retail exposures; and

6.2.3. other than retail exposures.

[14] Regulation (EC) No 1893/2006, of the European Parliament and of the Council of 20 December 2006 establishing the statistical classification of economic activities NACE Revision 2 and amending Council Regulation (EEC) No 3037/90 as well as certain EC Regulations on specific statistical domains (OJ L 393, 30.12.2006, p. 1).

26. A further breakdown by the following instruments may be considered, following the classification set out in Annexes II and IV to Commission Implementing Regulation (EU) No 680/2014[15]:

a. on-balance sheet items:

i. equity instruments,

ii. debt securities and

iii. loans and advances.

b. off-balance sheet items:

iv. loan commitments given,

v. financial guarantees given and

vi. other commitments given.

27. The instrument 'loans and advances' should include the following breakdown:

iii.a FX loans; and

iii.b credit for consumption.

6.2.a. Risk profile

28. The subdimension 'risk profile' should include the following elements:

6.2.a.1. non-performing;

6.2.a.2. risk-weight;

6.2.a.3. total debt-to-EBITDA ratio (only for legal persons);

6.2.a.4. loan-to-value (LTV) ratio;

6.2.a.5. loan-to-income ratio (only for natural persons);

6.2.a.6. debt-to-income (DTI) ratio (only for natural persons); and

6.2.a.7. debt service-to-income ratio (only for natural persons).

[15] Commission Implementing Regulation (EU) No 680/2014 of 16 April 2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council (OJ L 191, 28.6.2014, p. 1).

Elements 6.2.a.4 to 6.2.a.7 should follow the methods for measuring and calculating them and definitions set out in Annexes IV and V to Recommendation ESRB/2016/14 on closing real estate data gaps as amended by the recommendation of the European Systemic Risk Board of 21 March 2019 (ESRB/2019/3).

Elements 6.2.a.1 to 6.2.a.7 should include the indication of a threshold that should or not should be exceeded when identifying a subset of exposures.

6.3. Type of collateral

29. The dimension 'type of collateral'16 should include the following mutually exclusive elements:

    6.3.1. secured/collateralized; and

    6.3.2. unsecured.

30. The element 'secured/collateralized' should include the following breakdown:

    6.3.1.1. all types of collateral;

    6.3.1.2. secured by residential property (RRE);

    6.3.1.3. secured by commercial immovable property (CRE); and

    6.3.1.4. secured by other than immovable property.

6.3.a. Geographical area

31. The subdimension 'geographical area' should include the following elements (territorial units), following the European common classification of territorial units for statistics (NUTS) set out in Annex I to Regulation (EC) No 1059/200317:

    6.3.a.1. Member State (NUTS level 1 territorial unit[18]);

    6.3.a.2. region of a Member State (NUTS level 2 territorial unit); and

    6.3.a.3. subregion or city of the previous territorial units (NUTS level 3 territorial unit).

32. When combining one element from the sub-dimension 'geographical area' with an element or subelement of the dimension 'type of collateral', the subdimension 'geographical area' should be understood as follows:

[16] For presentation purposes, unsecured is classified as a type of collateral.

[17] Regulation (EC) No 1059/2003 of the European Parliament and of the Council of 26 May 2003 on the establishment of a common classification of territorial units for statistics (NUTS) (OJ L 154, 21.6.2003, p. 1), as amended.

[18] In the cases of larger Member States, NUTS 1 refers not to the whole Member State but to regions of it. Therefore, this level is kept as an element although for some Member States this level will not be relevant.

a) when the exposure is secured by residential or commercial immovable property, the subdimension refers to the specific location of the property (region, subregion or city) within the Member State or to all exposures secured in that Member State;

b) when the exposure is secured by other than immovable property, the subdimension refers, in the case of natural persons, to the place of residence of the debtor or counterparty (region, sub-region or city) within the Member State or to all exposures secured by other than immovable property in that Member State and, in the case of legal persons, the specific place of the registered office of the legal person (region, subregion or city) within the Member State;

c) when the exposure is unsecured, the subdimension refers, in the case of natural persons, to the specific place of residence of the debtor or counterparty (region, subregion or city) within the Member State or to all unsecured exposures in that Member State and, in the case of legal persons, the specific place of the registered office of the legal person (region, subregion or city) within the Member State.

7. General principles when identifying a subset of sectoral exposures

33. When identifying a subset of sectoral exposures in accordance with Sections 4 to 6, the relevant authority should ensure the right balance between addressing the macroprudential or systemic risks stemming from the targeted subset and the unintended consequences of applying a SyRB to this subset.

34. In order to facilitate a proper identification of subsets of sectoral exposures to which SyRB may apply, and in particular to avoid overlaps and double counting of risks, relevant authorities should cooperate with competent authorities, where different.

7.1. Unwarranted interactions with other macroprudential measures

35. For the purposes of paragraph 33, relevant authorities should in particular:

    a. ensure that the risks being addressed by the application of a sectoral SyRB determined in accordance with these guidelines are clearly and thoroughly defined;

    b. take into account and specify, when they are planning to introduce a sectoral SyRB, the interaction with other active macro-prudential measures in order to avoid activating the SyRB in an unwarranted manner for risks that have already been addressed by those macroprudential measures;

    c. avoid unwarranted interactions that may emerge between SyRBs if the same systemic risks are targeted by multiple SyRBs (sectoral and/or broader SyRBs) or where the same element for the identification of a subset of sectoral exposures is used in multiple sectoral SyRBs.

7.2. Reciprocity

36. When identifying an appropriate subset of sectoral exposures to which relevant authorities may apply a SyRB, they should take into account the following:

    a. An excessively granular application of the sectoral SyRB will disincentivise other authorities from reciprocating in accordance with Article 134 of Directive 2013/36/EU if the implementation of the measure by institutions and subsequent monitoring by relevant authorities are likely to be associated with high costs,

    b. Data gaps stemming from non-harmonised definitions can exist between jurisdictions, leading to challenges in the reciprocation of the measure and hence in the effectiveness of the measure. In order to reduce such gaps, relevant authorities should make use of pre-existing data sources.

37. In order to make reciprocity as simple as possible for reciprocating authorities, relevant authorities of the activating Member State should aim to provide all the information (including

definitions and relevant calculations) they consider relevant and not available to other Member States so that reciprocating authorities can adequately assess whether to reciprocate the SyRB rate.

38. Relevant authorities should consider ESRB Recommendation 2015/2 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures and reciprocate, where appropriate, SyRB measures introduced in other Member States.

7.3. Disclosure

39. Relevant authorities should aim to publicly disclose any rules or general guidance, including the materiality thresholds referred to in Section 5 of these guidelines, where applicable, issued in order to implement the provisions laid down in these guidelines, provided the disclosure of such information does not jeopardise the stability of the financial system.

Annex 1 – List of dimensions and subdimensions applicable to each high-level sectoral exposure

(i) Retail exposures to natural persons which are secured by residential property	**(ii) Exposures to legal persons which are secured by mortgages on commercial immovable property**	**(iii) Exposures to legal persons excluding those specified in (ii)**	**(iv) Exposures to natural persons excluding those specified in (i)**
1. Type of debtor or counterparty sector i. Natural persons	**1. Type of debtor or counterparty sector** i. Non-financial corporations ii. Financial corporations iii. General governments	**1. Type of debtor or counterparty sector** i. Non-financial corporations ii. Financial corporations iii. General governments	**1. Type of debtor or counterparty sector** i. Natural persons
	1.a. Economic activity i. NACE A – S	**1.a. Economic activity** i. NACE A – S	
2.Type of exposure i. Retail exposures By instrument i. Equity instruments ii. Debt securities iii. Loans and advances	**2. Type of exposure** i. All exposures ii. Retail exposures iii. Other than retail By instrument i. Equity instruments ii. Debt securities iii. Loans and advances	**2. Type of exposure** i. All exposures ii. Retail exposures iii. Other than retail By instrument i. Equity instruments ii. Debt securities iii. Loans and advances	**2. Type of exposure** i. All exposures ii. Retail exposures iii. Other than retail By instrument i. Equity instruments ii. Debt securities iii. Loans and advances

(i) Retail exposures to natural persons which are secured by residential property	**(ii) Exposures to legal persons which are secured by mortgages on commercial immovable property**	**(iii) Exposures to legal persons excluding those specified in (ii)**	**(iv) Exposures to natural persons excluding those specified in (i)**
a. FX loans b. Credit for consumption iv. Loan commitments given v. Financial guarantees given vi. Other commitments given	a. FX loans iv. Loan commitments given v. Financial guarantees given vi. Other commitments given	a. FX loans iv. Loan commitments given v. Financial guarantees given vi. Other commitments given	a. FX loans b. Credit for consumption iv. Loan commitments given v. Financial guarantees given vi. Other commitments given
2.a. Risk profile i. Non-performing ii. Risk weight iii. Loan-to-value iv. Loan-to-income v. Debt-to-income vi. Debt service-to-income	**2.a. Risk profile** i. Non-performing ii. Risk weight iii. Loan-to-value iv. Debt-to-EBITDA ratio	**2.a. Risk profile** i. Non-performing ii. Risk weight iii. Loan-to-value iv. Debt-to-EBITDA ratio	**2.a. Risk profile** i. Non-performing ii. Risk weight iii. Loan-to-value iv. Loan-to-income v. Debt-to-income vi. Debt service-to-income
3. Type of collateral i. Secured by RRE	**3. Type of collateral** ii. Secured by CRE	**3. Type of collateral** i. Secured by RRE iv. Secured by other than immovable property v. Unsecured	**3. Type of collateral** i. All types of collateral ii. Secured by RRE iii. Secured by CRE iv. Secured by other than immovable property v. Unsecured
3.a. Geographical area i. Country (NUTS 1 level) ii. Region (NUTS 2 level) iii. City (NUTS 3 level)	**3.a. Geographical area** i. Country (NUTS 1 level) ii. Region (NUTS 2 level) iii. City (NUTS 3 level)	**3.a. Geographical area** i. Country (NUTS 1 level) ii. Region (NUTS 2 level) iii. City (NUTS 3 level)	**3.a. Geographical area** i. Country (NUTS 1 level) ii. Region (NUTS 2 level) iii. City (NUTS 3 level)

Annex 2 – Examples of application of the criteria for the identification of subsets of sectoral exposures

40. Six examples can illustrate the application of the criteria for the identification of subsets of sectoral exposures set out in Section 4 of these guidelines. All the examples assume that the subset is systemically relevant according to Section 5 of these guidelines.

41. Example 1: assume a country, X, where the stock of consumer lending represents 25% of total loans. This share has been increasing rapidly in recent years (search-for-yield behaviour) mainly because of the low margins in secured loans and an easing in credit standards. When country X enters the downturn, the economic environment could trigger a strong increase in defaults/delinquencies in the consumer lending portfolios. In this case, the relevant authority could in the upturn apply a sectoral SyRB to the following subset:

    1. Type of debtor or counterparty sector = Natural persons
    2. Type of exposure = All exposures under credit for consumption
    3. Type of collateral = Unsecured

    This is a subset of the fourth sectoral exposures referred to in Article 133(5)(b) of CRD V.

42. Example 2: assume a country, Y, where 70% of mortgage lending in the residential real estate (RRE) sector is concentrated in its capital city. The real estate market in the capital city is overvalued (in contrast to the rural area) according to national and international studies. At the same time, the low interest rate has increased households' indebtedness in country Y significantly. In this case, the relevant authority could apply a sectoral SyRB to the following subset:

    1. Type of debtor or counterparty sector = Natural persons
    2. Type of exposure = Retail exposures
        - 2.a. Risk profile = LTV > 60% and DTI > 4
    3. Type of collateral = RRE
        - 3.a. Geography = Capital city

    This is a subset of the first sector al exposures referred to in Article 133(5)(b) of CRD V.

43. Example 3: assume a country, Z, where 20% of the total lending secured by immovable property is to the domestic agricultural sector. The total stock of lending secured by immovable property in country Z represents more than the country's GDP. In this country, the agricultural sector is not profitable. Most of the exposures in this sector are to highly indebted debtors that at the same time are highly sensitive to interest rate hikes. For country Z, this subset of exposures poses a systemic risk. The relevant authority could apply a sectoral SyRB to the following subset:

    1. Type of debtor or counterparty sector = Non-Financial corporations

        1.a. Economic activity = NACE A

    2. Type of exposure = All exposures under loans and advances

        2.a. Risk profile = Debt-to-EBITDA ratio > 4

    3. Type of collateral = CRE

    This is a subset of the second sectoral exposures referred to in Article 133(5)(b) of CRD V.

44. Example 4: assume a country, W, where the total outstanding of corporate bonds amounts to EUR 500 billion, representing 20% of the country's GDP. Almost 50% of these bonds are held by the domestic banking sector. Because of the low interest rate environment, which has persisted for many years, the share in the banks' balance sheet of corporate bonds at the bottom tier of investment grade has increased from 10% to 40%. In the event of a recession, the losses from such holdings could destabilise the domestic banking sector. The relevant authority could apply a sectoral SyRB to the following subset:

    1. Type of debtor or counterparty sector = Non-financial corporations

    2. Type of exposure = All exposures under debt securities

    3. Type of collateral = Unsecured

    This is a subset of the third sector al exposures referred to in Article 133(5)(b) of CRD V.

45. Example 5: assume a country, P, where household indebtedness is relatively high and vulnerabilities in the housing market are significant. Furthermore, country P is characterised by a large share of banks using IRB models. The share of mortgage lending in the residential real estate is significant at the country level, while the average risk weights are below those of EU peers. In this case, the relevant authority could apply a sectoral SyRB to the following subset:

    1. Type of debtor or counterparty sector = Natural persons

    2. Type of exposure = Retail exposures

        2.a. Risk profile = (Average) risk weight < 20%

3. Type of collateral = RRE

This is a subset of the first sectoral exposures referred to in Article 133(5)(b) of CRD V.

46. Example 6: assume a country, Q, where the banking sector is characterised by a balance sheet with low credit quality. In this country, the interest rate has been low for many years creating structural vulnerabilities. In the event of an interest rate hike in the future, the risk of a resurgence of non-performing loans could pose serious systemic risks to country Q. In this case, the relevant authority could for preventive reasons apply a sectoral SyRB to the following subset:

1. Type of debtor or counterparty sector = Non-financial corporations
2. Type of exposure = All exposures
   2.a. Risk profile = Non-performing (ratio) > 5%
3. Type of collateral = CRE

This is a subset of the second sectoral exposures referred to in Article 133(5)(b) of CRD V.

4. Accompanying documents

4.1 Draft cost-benefit analysis / impact assessment

This section provides a qualitative and quantitative analysis of the rationale behind these guidelines (problem identification) and their potential impact.

The qualitative analysis explains the pros and cons of leveraging on pre-defined dimensions to define subsets of sectoral exposures.

The quantitative analysis relies on information available through the supervisory reporting templates (i.e. FINREP and COREP) and in particular on data provided in the EBA sample. This makes it possible to avoid collecting information from the national competent authorities (NCAs) or directly from banks.

The quantitative analysis includes a baseline scenario represented by the definition of sectors provided in Article 133 (5)(b) of CRD V. In addition, the possibility of segmenting the sectors in subsets of sectoral exposures as suggested by these guidelines is provided. Alternatively, the possibility of providing high-level guidelines about the dimensions without providing exact definitions is also considered. The analysis shows the relative size (compared with the total amount of the risk-weighted assets) of the subsets obtained under the baseline scenario and the first alternative scenario. A sensitive analysis on the impact of applying a buffer equal to 3% of the RWAs is also provided and expressed in terms of percentage of the CET1 voluntary capital buffer. The data stem from a sample of 116 EU banks (as of 31 December 2018).

The aim of this analysis is to demonstrate the benefit of having a sectoral SyRB in terms of higher flexibility against the challenge of introducing excessive complexity.

4.1.1 Problem identification

Under CRD IV, the implementation of the SyRB varied widely across countries. Although, there are already checks and balances within the existing regulatory framework, which ensure a degree of harmonisation across Member States, national authorities have been following different arrangements, in particular in terms of the buffer level, the scope (i.e. solo or consolidated) and the phase-in periods (with or without).

CRD V addresses some of these divergences. Nevertheless, the current application of the SyRB underlines the need of flexibility in addressing a wide variety of sources of risks but also shows the lack of a common framework among countries.

CRD V increases the flexibility and comprehensiveness of the SyRB. Thus, a common framework for the application of the SyRB is crucial; still, this framework should provide the needed flexibility.

4.1.2 Policy objectives

The objective of the guidelines is to set a common framework between Member States to harmonise the design of the appropriate subsets of exposures in the application of an SyRB, facilitating a common approach throughout the EU but also supporting reciprocation of the SyRB measures between Member States.

4.1.3 Baseline scenario

The baseline is represented by the definition of the sectoral exposures provided by article 133 (5)(b) of CRD V. Four sectors can be approximated, with some simplifications, using the definitions. In other terms, under the baseline scenario, the application of the SyRB would be admissible only at the level of partition obtained by the combination of the characteristics: exposure, debtor and collateral:

Debtor or Counterparty	**Type of Exposures**	**Type of Collateral** Residential/ Commercial	 Other Guarantees or Unsecured
Natural persons	Retail Exposures All Exposures	e.g. Lending for hous purchase	e.g. Consumer Loans
Legal persons	All Exposures	e.g. Lending for industrial building purchase	e.g. Advances

Under the baseline scenario, the highest level of simplicity and homogeneity of the application of the SyRB would be obtained; however, the flexibility of the framework would be limited.

4.1.4 Options considered

The guidelines depict a common framework for the definition of subsets of the sectoral exposures as defined by Article 133(5)(b) of CRD V. For this purpose, further dimensions are introduced with the aim of classifying in a more granular manner both the borrowers and the facilities.

The options considered are two:

1. Use the definitions provided by the guidelines to obtain higher flexibility in comparison with the baseline scenario

2. Provide high-level guidelines about the dimensions that can be used, without providing exact definitions. For example, one of the dimensions could be the economic sector but the definitions could be different from those provided by FINREP.

4.1.5 Cost-benefit analysis

Qualitative analysis

Although the common framework for the definition of subsets of the sectoral exposures followed in the guidelines has several advantages, it also brings some disadvantages. This section provides a pros and cons analysis in order to highlight the intended and unintended consequences of the framework.

Pros

By creating a common framework for the design of subsets of exposures, a harmonised and consistent application of the sectoral SyRB is supported, thus facilitating reciprocation of the measures between Member States.

The application of the SyRB using the common framework is flexible and practical, allowing a number of combinations, which means the application of the sectoral SyRB is possible for a variety of different subsets of exposures. Thus, this framework allows the relevant authorities to design the most appropriate subsets of exposures for the targeted systemic risk based on a series of pre-determined dimensions, which keep the application harmonised.

The common framework uses, whenever possible, definitions that are already harmonised in the EU (either CRR or other harmonised legislation). Furthermore, most of the data is available in FINREP and COREP. This supports the consistent application of the sectoral SyRB across Member States based on common definitions.

Data might not be available from either a harmonised or a national data collection for all subsets that it is possible to create by combining the dimensions. However, the common framework creates incentives and signals the need for national authorities to collect additional data, thus supporting the closing of identified data gaps.

Cons

In comparison with the baseline scenario, making it possible to define subsets of exposures increases the complexity of the capital framework and subsequently the macroprudential policy.

Employing CRR definitions could limit the ability to define the subsets appropriately for the purposes of these guidelines. For example, from a financial stability perspective, there is a difference in the definitions of RRE and CRE between the CRR and the ESRB recommendation on closing data gaps. The ESRB definitions of residential and commercial real estate have been constructed with the aim of stressing that CRE is considered riskier than RRE.

Some of the elements can only be monitored if micro data is available, leading to potential data gaps when calibrating or reciprocating an SyRB. AnaCredit may make the calibration and reciprocation easier as it provides detailed information on individual bank loans in the euro area, which, jointly with the use of standards and common definitions across countries, is intended to enhance the harmonization and comparability of results across the area. However, in some non-euro countries such a dataset is not available, although they can qualify themselves as a reporting country or alternatively collect micro-data on bank loans in a national data collection.

Quantitative analysis

The aim of this analysis is to demonstrate the benefit of having a sectoral SyRB in terms of higher flexibility against the challenge of introducing excessive complexity. In particular, it is shown that, relying only on the dimensions provided by Article 133(5)(b), each of the sectors obtained includes a large part of the total risk-weighted exposures. In particular, the sector defined by Article 133(5)(b)(iii), i.e. legal/unsecured represents, on average about 55% of total RWAs. The application of the buffer at this level could have a high impact in terms of the level of the SyRB required, and therefore the relevant authorities may choose not to apply for that reason because the different types of exposures within the sector could be considered too heterogeneous in terms of riskiness. It is also shown that the relative importance of the sectors in terms of total RWAs varies substantially between banks, and this implies that the application of the buffer at sector level could result in an increase in the variability of capital requirements.

Most of the definitions of the elements that can be used to define the subset of exposures are already in use in FINREP. For example, NACE codes are used in template F 06.01. In template F 05.01, loans are classified alternatively by product (facility type), collateral and purpose while borrowers are classified by sector.

However, the sectoral SyRB is applied to the risk exposure amount (RWA) as defined by article 92(3) of Regulation (EU) No 575/2013, and FINREP does not provide this information. For this reason, it has been necessary to start from COREP and in particular C 07.00 (for exposures subject to the standardised approach, SA, to credit risk) and C 08.01 (for exposures treated with the internal rating based, IRB, approach).

The level of classification of borrowers and loans is different in COREP for the SA and IRB approach. While the definitions of the portfolios (asset classes), under both approaches, can be traced back to the classification of the borrowers in five sectors (i.e. general governments, financial corporations, non-financial corporations, households and non-profit), the classification of the loans is less straightforward. In particular, the SA template provides, for each portfolio, the detail of the loans granted by mortgages either on commercial immovable property or on residential property. The IRB template, instead, provides the detail of loans granted by mortgages only for the retail portfolio. For both SA and IRB templates, the detail of the application of the supporting factor (SF) makes it possible to further identify, among the corporates portfolios, the amount of exposures to SMEs with total exposures lower than EUR 1.5 million.

The scheme in Table 1 provides a tentative mapping between the definitions of the sectoral exposures provided by Article 133 (5)(b) of CRD V and COREP. The third classification (i.e. low, mid, high) is assigned as follows. Low is assigned to the retail asset classes; this implies that the total exposures of each borrower are lower than EUR 1 million. Mid is assigned to borrowers subject to the SF; this implies that the borrower is classified as an SME and the exposure is lower than EUR 1.5 million (i.e. it is included in the range EUR 1.0 million to EUR 1.5 million). High is assigned residually.

Table 1: Mapping between asset classes (IRB and SA) included in COREP and sectors

IRB asset classes	Supporting Factor YES	Supporting Factor NO
Corporates Others + Corporates Spec. Lending	Legal / . / Mid	Legal / . / High
Corporates SME	Legal / . / Mid	
Retail Other SME	Legal / Unsecured / Low	
Retail Other non-SME + Retail Qualifying Revolving	Natural / Unsecured / Low	
Retail Secured SME	Legal / Commercial / Low	
Retail Secured non-SME	Natural / Residential / Low	
Other	Legal / . / High	

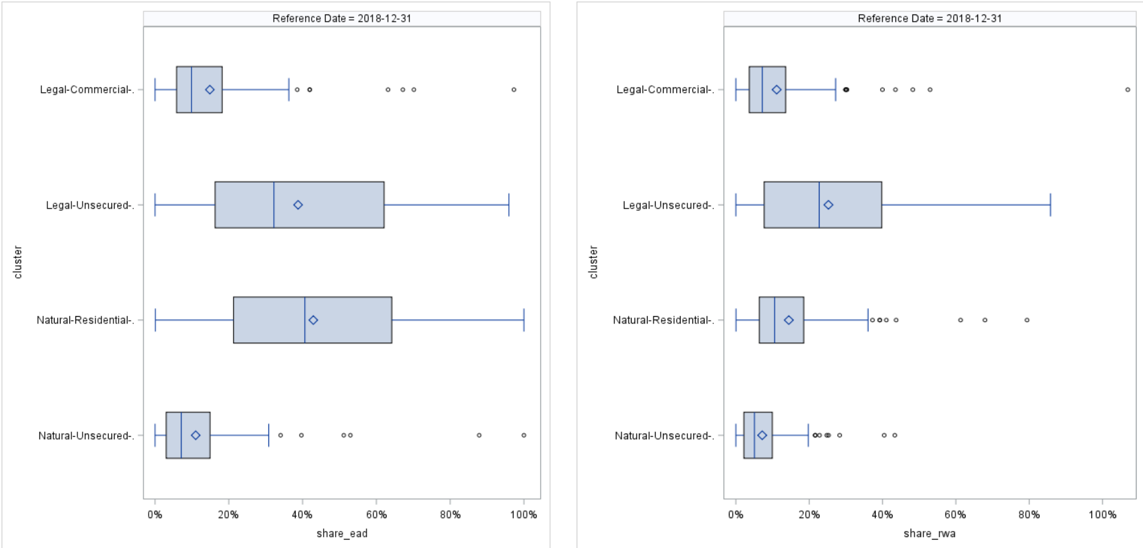
SA asset classes	Supporting Factor YES	Supporting Factor NO
Corporates Secured by mortgages on commercial	Legal / Commercial / Mid	Legal / Commercial / High
Corporates Secured by mortgages on residential	Natural / Residential / Mid	Natural / Residential / High
Corporates residual	Legal / Unsecured / Mid	Legal / Unsecured / High
Retail Secured by mortgages on commercial	Legal / Commercial / Low	
Retail Secured by mortgages on residential	Natural / Residential / Low	
Retail residual	Legal / Unsecured / Low	Natural / Unsecured / Low
Other Secured by mortgages on commercial	Legal / Commercial / Mid	Legal / Commercial / High
Other Secured by mortgages on residential	Natural / Residential / Mid	Natural / Residential / High
Other residual	Legal / Unsecured / Mid	Legal / Unsecured / High

Source: Own calculations

It should be noted that the classification as secured or unsecured is missing from the corporates under the IRB asset class. This reflects the discussion above. By combining, at bank level, COREP and FINREP templates (in particular template F 05.01), an estimate of the share of secured loans of the IRB corporates asset classes has been obtained. Furthermore, leveraging on template F 06.01, an estimate of the partition of the asset classes corporates and SME retail in terms of the NACE codes is also obtained. Data is referred to the reference date 31 December 2018; individual reporting banks have been excluded; the EAD of the SA has been added back to the provisions, to align with the IRB.

The definition of the sectoral exposures in Article 133 (5)(b) of CRD V provides four categories: natural/residential; natural/unsecured; legal/commercial; legal/unsecured. Figure 1 shows the relative weight of the four classes in terms of EAD (left panel) and also RWAs compared with the total amount of the RWAs (right panel). It can be seen that two of these clusters represent a large part of the total RWAs. The difference between the two representations is given by the risk weight attributed to each asset classes; in particular, some of the asset classes included in the cluster legal/unsecured receive a low risk weight (e.g. for sovereigns under the SA the risk weight is zero). It is possible to observe that, for 50% of the banks considered, the cluster legal/unsecured (i.e. corporates and SME retail not secured by commercial properties) represents between 12% and 42% of the total RWAs. In addition, the cluster natural/residential represents between 6% and 21% of the total RWAs.

Figure 1: Relative shares of the sectors in terms of EAD and RWA



Source: EBA supervisory reporting

Relevant authorities may apply a sectoral SyRB of up to 3% of the RWAs of a given sectoral exposure without the need to request an opinion from the Commission, assuming that the overall combined SyRB applied on any set or subset of exposures subject to one or more SyRBs does not exceed 3%. Figure 2 shows the total impact of the application of a buffer equal to 3% of the RWAs of each sectoral exposure. The impact is expressed in terms of percentage of the CET1 voluntary capital buffer. The data stem from a sample of 116 EU banks.

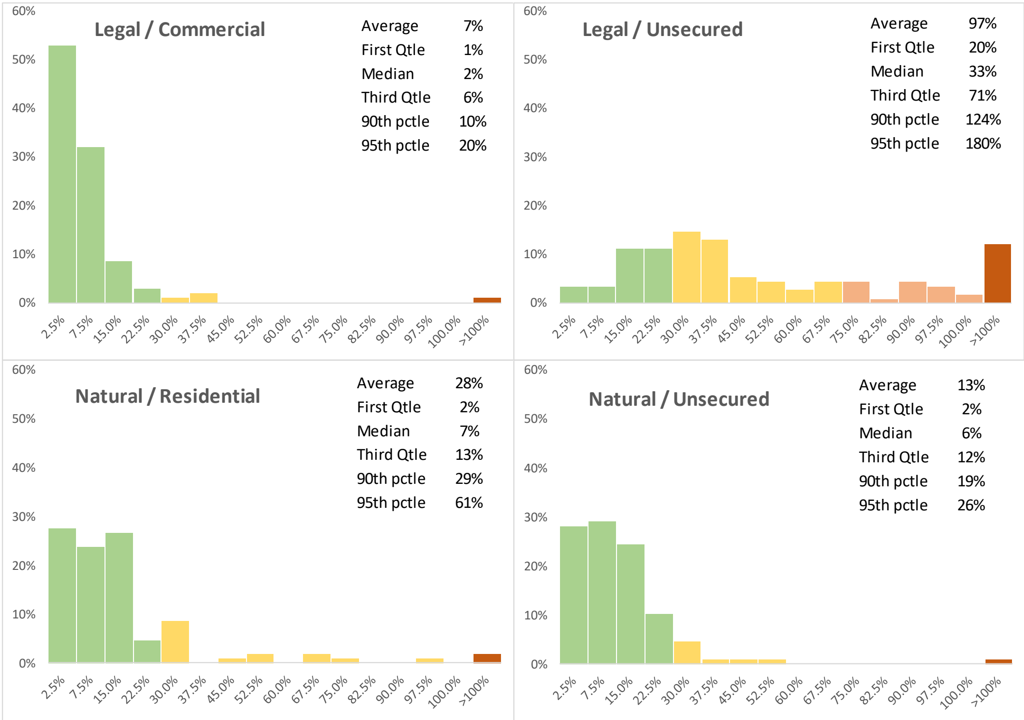
The total amount of the CET1 voluntary capital buffer[19] for the banks considered was equal to EUR 404 billion (4% of the total RWAs) at the end of 2018. Considering the smallest clusters, i.e. legal/commercial and natural/unsecured, the average impact of a 3% buffer would be limited (7% and 13% of the CET1 voluntary capital buffer respectively).

For practically all the banks considered, the impact would be lower than 30% of the voluntary buffer (the 95th percentile is lower than 30%) and the dispersion of the effect would be not so high. For the cluster natural/residential both higher average impacts and a higher dispersion of the impacts are produced.

Finally, the application of the buffer to the cluster legal/unsecured (which includes a great variety of counterparties, i.e. from large to small corporates, financial entities and governments) would be able to produce quite high impacts: for a quarter of the banks (third quartile) the required additional capital would be higher than 70% of the CET1 voluntary capital buffer and for 10% of the sample (90th percentile) the additional capital requirements would be higher than the buffer. The observed dispersion reflects the different business models of the banks.

[19] The difference between the CET1 capital and the overall capital requirement and Pillar 2 Guidance made up of CET1 capital

Figure 2: Impact of a 3% buffer in terms of percentage of the CET1 voluntary capital buffer



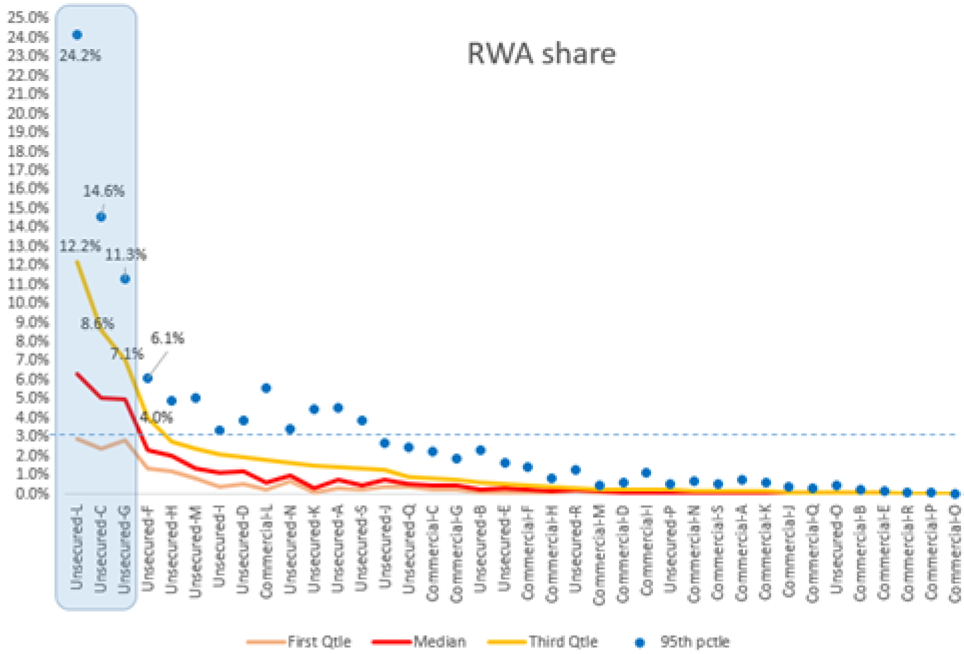
Source: EBA supervisory reporting

It appears from the analysis above that the application of the SyRB at the level of partition provided by Article 133 (5)(b) reduces the flexibility of the approach given the large share of risk exposures represented by the clusters defined. Moreover, the impacts in terms of capital requirements would vary considerably between banks and countries and this would reduce the comparability of the capital ratios.

One of the dimensions considered by these guidelines is economic activity. The simple introduction of the NACE as a driver of segmentation of corporates and SMEs greatly increases the flexibility of the framework. For most of the clusters so defined, the share of the total RWAs is below 3% for 75% of the banks (third quartile) and only for three clusters[20] is the third quartile higher than 4% (Figure 3).

[20] C=manufacturing, G=wholesale and retail trade, L=real estate activity

Figure 3: Relative share of the industrial sub-sectors in terms of RWA



Source: EBA supervisory reporting

In terms of impact of the application of a 3% surcharge at subsector level, Table 2 shows that it would be possible to have meaningful impacts compared with the CET1 voluntary buffer. However, it would hardly be possible to have an impact able to completely absorb the buffer, and the dispersion appears to be restrained: the 95th percentile of the impacts is below 30%.

Table 2: Impact of a 3% buffer in terms of percentage of the CET1 voluntary capital buffer

	Commercial					Unsecured				
	Average	First Qtle	Median	Third Qtle	95th pctle	Average	First Qtle	Median	Third Qtle	95th pctle
A Agriculture, forestry and fishing	0.30%	0.02%	0.08%	0.15%	1.07%	2.86%	0.20%	0.66%	1.50%	4.85%
B Mining and quarrying	0.23%	0.01%	0.03%	0.06%	0.21%	3.04%	0.04%	0.19%	0.46%	1.92%
C Manufacturing	1.01%	0.18%	0.44%	0.85%	3.08%	10.53%	1.51%	3.84%	8.31%	29.60%
D Electricity, gas, steam and air conditioning supply	0.33%	0.04%	0.10%	0.21%	0.65%	3.47%	0.34%	0.73%	1.92%	5.04%
E Water supply	0.05%	0.01%	0.02%	0.05%	0.18%	0.52%	0.08%	0.21%	0.48%	1.39%
F Construction	0.71%	0.06%	0.16%	0.54%	2.23%	6.97%	0.62%	1.55%	3.97%	13.88%
G Wholesale and retail trade	0.83%	0.16%	0.38%	0.85%	2.00%	7.73%	1.40%	3.52%	7.73%	17.30%
H Transport and storage	0.82%	0.07%	0.17%	0.34%	1.31%	8.89%	0.68%	1.39%	2.62%	9.44%
I Accommodation and food service activities	0.27%	0.03%	0.08%	0.26%	1.07%	1.76%	0.24%	0.83%	1.66%	4.46%
J Information and communication	0.23%	0.03%	0.07%	0.16%	0.41%	2.75%	0.26%	0.60%	1.29%	4.19%
K Financial and insurance activities	0.10%	0.01%	0.04%	0.12%	0.42%	0.88%	0.08%	0.34%	1.10%	3.62%
L Real estate activities	2.21%	0.18%	0.63%	1.60%	8.42%	18.90%	1.96%	5.82%	10.06%	28.50%
M Professional, scientific and technical activities	0.37%	0.07%	0.12%	0.29%	0.61%	4.15%	0.46%	1.15%	2.27%	5.66%
N Administrative and support service activities	0.34%	0.04%	0.09%	0.17%	0.68%	3.88%	0.39%	0.83%	1.33%	3.17%
O Public adm and defence, compulsory social security	0.06%	0.00%	0.00%	0.01%	0.04%	0.89%	0.00%	0.01%	0.08%	0.45%
P Education	0.03%	0.00%	0.01%	0.02%	0.08%	0.37%	0.02%	0.07%	0.17%	0.65%
Q Human health services and social work activities	0.14%	0.02%	0.05%	0.09%	0.35%	1.50%	0.23%	0.39%	0.77%	1.89%
R Arts, entertainment and recreation	0.04%	0.01%	0.02%	0.04%	0.14%	0.51%	0.06%	0.17%	0.33%	0.91%
S Other services	0.14%	0.02%	0.07%	0.15%	0.61%	1.51%	0.16%	0.47%	1.23%	5.02%

Source: Own calculations

4.1.6 Preferred option

The common framework presented in these guidelines ensures a harmonised yet flexible application of the sectoral SyRB. This flexibility may also come with a certain degree of complexity and difficulty in reciprocation, but these issues are limited to some extent by the pre-determined dimensions. In addition, any relevant authority can apply the sectoral SyRB in a way that strikes the right balance between the need to address the relevant systemic risk stemming from sectoral exposures and the importance of not becoming too complex.

The relevant authorities might not apply a buffer to an entire sector because its impact could be considered excessive if the exposures within the sector are considered not homogeneous in terms of riskiness.

The possibility of defining subsets of exposures to apply the SyRB increases the flexibility. In addition, the reliance on a pre-defined list of dimensions, along which the subsets can be defined, should ensure a sufficient level of comparability. Allowing unrestricted granularity (the alternative option) would probably hinder harmonisation among jurisdictions and limit the reciprocation of the sectoral SyRB measures between Member States.

4.2 Feedback from the public consultation

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
General comments			
Support	The majority of respondents expressed support for the work and the objective of the GL in assisting in harmonisation of usage of this buffer. One respondent was in favour of the envisaged increase in flexibility and precision of the SyRB and the objective of a non-overlapping application of capital requirements and buffers by the relevant authorities.		No change
Reduction in complexity/granularity	Several respondents expressed concerns regarding the complexity of the GL and felt that the level of granularity was excessive.	The balance between complexity in the application of subsets and flexibility in the targeting of systemic risk has been the primary challenge in developing these GL. The EBA has sought to balance these two competing ideals, and is of the view that the text represents the best achievable compromise between them.	No change
Avoidance of multiple capital backing	Several respondents expressed concerns about the sectoral SyRB being used to address risks either already covered by other tools or that should, in the first instance, be covered by other tools. Several respondents expressed concerns that overlaps between specific instruments and the	The current structure of the GL attempts to balance the need to ensure that neither multiple risk coverage nor overlaps with other instruments occur in the usage of the sectoral SyRB. These concerns are specifically noted in paragraph 4 of the executive summary, paragraph 5 of the background and rationale, and Section 7 of these GL. Moreover, CRD	No change

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	sectoral SyRB were not sufficiently addressed in the GL.	V clarifies that the SyRB is not to be used to address risks that are covered by an active G-SII/O-SII buffer and CCyB (see Article 133(7) and (8)(c) of CRD V).	
Transparency of decisions and processes	Several respondents expressed a desire for clear and transparent documentation of decisions and processes.	The EBA is supportive of such transparency. According to Article 133(13) of CRD V, the relevant authority must announce the setting or resetting of one or more SyRB rates by publication on an appropriate website. This publication should include a set of information related to the subset when applicable. Moreover, the EBA sees merit in the disclosure of the national approach taken when defining a subset of exposures in order to increase transparency. This can help credit institutions with their risk and capital management and planning, and facilitate reciprocity between Member States. Nonetheless, such disclosure must not jeopardise the stability of the financial system of the Member State and/or the EU.	The GL ask for the disclosure of the national approach taken (including the materiality thresholds used when applicable) in the identification of subsets of exposures in line with these GL.
Systemic nature of risks	Several respondents expressed a desire that the GL encourage clear description of the systemic nature of risks when utilising this tool.	The GL make multiple references to systemic risks and the importance of systemic relevance as a pre-condition when defining a subset of sectoral exposures.	No change
Data sources	Several respondents expressed concerns that the requested data must be already available from data sources in order to reduce costs and encourage reciprocity.	The GL currently reflect this in Section 7. However, there is merit in explicitly stating the benefits of choosing pre-existing data sources if those sources reduce data gaps.	The GL suggest the use of pre-existing data sources where possible.
Implementation period	Some respondents suggested the inclusion of an implementation period of 1 year. In their view, this	The EBA agrees that authorities should provide banks with sufficient time to comply with the buffer	No change

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	would be consistent with the approach currently taken to the CCyB and would allow banks sufficient time to prepare their information systems.	requirements. However, the EBA does not see the need to set a specific implementation deadline in the GL. The EBA is of the view that the appropriate deadline should be published in accordance with Article 133 (13) and set by relevant authorities in view of the magnitude of systemic risks and the urgency of policy action.	
Delay implementation	One respondent suggested postponing implementation of the GL by 1 year due to the ongoing COVID-19 pandemic.	The current implementation date for the GL is linked to the implementation of CRD V.	No change
Other issues	One respondent raised some questions around the consistency of the GL with other reporting obligations and associated system calibrations, including, for instance, the differences in the proposed definitions of the type of exposure from those under the Capital Requirements Regulation.	According to Section 2, the definitions of types of exposure, e.g. the retail exposure, are in line with Regulation (EU) 575/2013.	No change
	One respondent argued that the transition from old to new SyRB rules, should be notified to EU authorities to ensure that the suggested methodology and proportionality are applied in practice from the start date. Some countries already have high levels of SyRB, and may choose only to continue to apply the SyRB to all exposures as this may seem to be the easiest transition to the new CRD V. The new SyRB rules may be watered down if notification processes, documentation, calibration and harmonised monitoring by EU authorities are not carried out. The transition from the current SyRB application to the new SyRB set-up may be complicated as current SyRB risk justifications may	The EBA is mandated to specify the appropriate subsets of sectoral exposures to which the relevant authority may apply an SyRB. The transition from old to new SyRB rules is out of the scope of this mandate.	No change

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	also overlap with the justification used as the basis for O-SII and countercyclical buffer levels. Further elaborations would be welcomed.		
	One respondent requested more clarification on the relation between application of SyRB to all exposures and application to sectoral exposures. From Article 133(1) of CRD V, it is understood that Member States may not combine an SyRB both based on all exposures and based on subsets of exposures. Competent authorities have to choose one of the approaches. Further guidance on the possible combinations of subsets and the combined buffers under reciprocation would be welcomed. Guidance on calibration also seems absent.	Article 133(1) of CRD V reflects the different options for exposure basis that relevant authorities may consider when applying an SyRB, which can be combined. Moreover, according to Section 7, the EBA advises the relevant authorities to (i) avoid an excessively granular subset of sectoral exposures to which an SyRB may be applied, as this would disincentivise other authorities from reciprocating, and (ii) provide all the relevant information in order to allow adequate access to the reciprocity request. Lastly, guidance on calibration of the sectoral SyRB goes beyond the scope of the EBA's mandate.	No change
Responses to questions in Consultation Paper EBA/CP/2020/02			
Question 1. What are the respondents' view on the three pre-determined dimensions and three pre-determined subdimensions to which the common framework allows to define a subset of exposures for the application of a sectoral systemic risk buffer?			
Complexity of the framework	Several respondents were concerned about the level of granularity for the determination of the proposed dimensions and sub-dimensions. One respondent further argued that banks and their stakeholders would look to make forward projections for capital and minimum distributable amounts and that reporting the composition of the SyRB will be highly resource intensive compared, for example, with the CCyB. Designated authorities appear able to define a large or potentially unlimited number of buckets for certain sub-	The GL are based on a common and flexible framework in which each relevant authority can identify a subset of sectoral exposures based on pre-determined dimensions. Moreover, but only where appropriate, duly justified and proportionate, the relevant authority can use subdimensions in order to prevent and mitigate systemic risk. In addition, when identifying a subset of sectoral exposures, the relevant authorities should conduct a qualitative and quantitative assessment of the systemic relevance of the risks stemming from that subset. The EBA	No change

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	dimensions, particularly in relation to risk profile and geography. One respondent pointed out that it is not clear how one of the three common characteristics identified – the exposures dimension – can be drawn from the four high-level sectoral domestic exposures mentioned in paragraph 7 of Section 3 Instead of specifying an excessive number of subsectors, which goes significantly further than the EBA's mandate, an alignment with the 2 x 2 sectors defined in CRD V, based on the debtor and counterparty dimensions, should be sought. Another respondent stated that the high degree of granularity leads to a bottom-up approach to systemic risk, which raises the question of whether or not the framework is suitable to address systemic risk. A more appropriate approach to systemic risk would account for dependencies and dynamics that will occur when a crisis materializes. At the same time, the financial strength of the entity /group, the banking industry (or parts of it), and the economy and its segments (including its links to other parts of the economy) should be accounted for as well.	considers that this assessment contributes to reducing excessive granularity and complexity, without compromising the purpose of the instrument and the principle of flexibility. The EBA has sought to balance these two competing ideals, and is of the view that the guidelines represent the best achievable compromise between them. The EBA identifies three common characteristics in the four specific high-level sectoral exposures mentioned in Article 133(5)(b) of CRD V - debtor, exposure and collateral - which make up the minimum set of dimensions in order to comply with the legal text. Accordingly, the EBA considers that the four specific high-level sectoral exposures mentioned in Article 133(5)(b) of CRD V can be categorized according to their type of exposure, i.e. retail exposures or all exposures. Moreover, the EBA is mandated to specify the appropriate subsets of sectoral exposures to which the relevant authority may apply an SyRB. In these terms, an alignment with a 2 x 2 dimensions – debtor and counterparty dimensions – would not be in accordance with the EBA's mandate, as it would be focused on the specific high-level sectoral exposures mentioned in Article 133(5)(b) of CRD V, excluding any possible subset of these four exposure categories as envisaged in Article 133(5)(f). Under CRD V, the SyRB can be tailored to become a targeted macroprudential instrument to mitigate system-wide risks, setting aside factors with an idiosyncratic nature. Moreover, the GL envisage an	

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
		assessment that relevant authorities may conduct to evaluate the systemic relevance of the risks stemming from the subset of sectoral exposures they want to target, which includes the criterion interconnectedness (which for example, accounts for certain dynamics that occur if risks materialize).	
Data availability and cost of collecting	Most respondents argued that only (sub)dimensions should be used that can be derived from the data sources already available to the competent supervisory authorities. No additional reporting requirement should therefore arise from these guidelines since this would entail considerable additional work and costs for the institutions, whereas the benefit of additional data is questionable given that the sizing of the SyRB will be typically based on rough assumptions, a more extensive data pool would merely appear to lead to higher accuracy of the instrument, while acceptance would decline due to higher complexity. Moreover, respondents stated that the establishment of (sub)dimensions should be based on one single data source, preferably COREP reporting data, without mixing of data sources, i.e. additional FINREP reporting or statistical definitions. The recourse to other data sources and the combination of data sources means a considerable effort for the banks and produces additional costs. Data collected from different data sources are calculated with different methodologies	The common framework uses, whenever possible, definitions that are already harmonised in the EU (either the CRR or other harmonised legislation). Furthermore, most of the data is available in FINREP and COREP. This supports the consistent application of the sectoral SyRB across Member States based on common definitions and avoids excessive costs. Data might not be available for all potential subsets at the EU level. However, to make the framework sufficiently flexible and futureproof, it should take into account the current developments in the area of national and EU data collections, or improvements in data quality. Moreover, where common EU reporting was not available, the goal of the GL was not to create new reporting requirements but to give national authorities the option of using already available national data reporting. While some of the elements can only be monitored if micro data is available, leading to potential data gaps when calibrating or reciprocating an SyRB, developments with respect to AnaCredit for instance, may make the calibration and reciprocation easier. Moreover, as mentioned in Section 7, the EBA	No change

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	and reconciling this information is highly burdensome. Several respondents also argued that the focus on data sources that are already available to the competent supervisory authorities also facilitates reciprocity between Member States.	outlines some actions that the relevant authorities may consider to facilitate the reciprocation process. Furthermore, any relevant authority must apply the sectoral SyRB in a way that strikes the right balance between the costs such measures can bring and its benefits to financial stability in the Member State in question. With this in mind, the EBA is of the opinion that the current framework provides national authorities with the required flexibility to match the new scope of the SyRB, while limiting disproportionate data costs.	
Degree of national discretion and implications for EU harmonisation	Several respondents were concerned that the draft GL imply too many possibilities, whereby the level playing field can no longer be guaranteed. Several respondents argued that the increasing level of granularity with regard to the application of the SyRB, with the classification into debtor or exposure classes in combination with NACE-codes, collateral, and economic metrics, such as debt service ratio or loan to value ratio, may not be appropriate to promote increased consistency and comparability among jurisdictions. Combining these dimensions may create complex, less consistent and different ways of applying the SyRB between Member States, which contradicts the principle of consistency across jurisdictions as set out by the EBA. One respondent argued that the three main dimensions are relevant, including the	The EBA is of the opinion that the increased flexibility and comprehensiveness of the SyRB provided by CRD V, and the current application of the SyRB to address a wide variety of sources of risks underline the need for flexibility. At the same time, this flexibility should not yield an excessive degree of complexity and difficulty in reciprocation. This is ensured by pre-determining and limiting the dimensions to which a sectoral SyRB can be applied. The EBA is of the opinion that the GL strike a proper and justifiable balance between providing the required flexibility and avoiding excessive complexity of the framework. Moreover, the GL set a common framework to harmonise the design of the appropriate subsets of sectoral exposures to the application of an SyRB, facilitating a common approach throughout the EU, but also supporting	No change

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	subdimensions connected to collateral (items 3.1 to 3.1.4) and debtor category (items 1.1 to 1.1.3). The suggested and detailed exposure subcategories (from item 2.1) are assessed as not necessary to identify a systemic risk. Risks related to specific exposure subtypes should either be solved by either institution specific measures or the development of a harmonized framework. In addition, several respondents stated their concerns about the lack of detail in relation to the assessments that are to be completed by national authorities, taking into account the high degree of discretion at the national level. To secure consistency, a common scoring methodology, as is used for the O-SII buffer, or scaling would be required due to varying risk perception among CAs, and the suggested application. The GL therefore require amendments in respect of transparency of decisions and associated processes. The final GL should, for example, improve the description of expected considerations to be made by CAs as well as outlining further examples of reciprocation.	reciprocation of the SyRB measures between Member States. The EBA does not think that the level of granularity in applying the SyRB harms the implementation of a sectoral SyRB in a consistent manner across jurisdictions. On the contrary, the EBA finds that removal of the subdimensions as proposed by one respondent would distort the current balance in the framework between flexibility and complexity. The harmonised framework promotes – also given the lack of a current harmonised framework for the use of SyRB – consistent application of the SyRB across the EU and therefore promotes the level playing field. This is in addition to the rules incorporated in the CRD V, which also protect the level playing field (e.g. by requiring an opinion or authorisation from the European Commission depending on how high the combined SyRB rate is). The EBA is of the view that the GL already provide sufficient guidance on the process of identifying the sectoral SyRB with a specific focus on the assessment of the systemic relevance of risk stemming from subsets of exposures (which in fact can be considered a backstop against excessive granularity). In particular, the template for notification to the ESRB requires relevant authorities to provide sufficient clarification of the goal of the measure. Moreover, the EBA believes that reciprocity challenges and how to address them are also already mentioned in the GL. The EBA is thus of the opinion that providing further	

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
		guidance on these issues is beyond the scope of the GL.	
Overlap with other instruments	Some respondents argued that there was no clear distinction between the Pillar 2 capital requirement and the possible requirements of the SyRB. The combination of some elements of the dimensions and sub-dimensions (e.g. non-performing loans, risk weight, and debt to EBITDA ratio) may currently already be subject to other measures, such as the institution specific Pillar 2 requirement, therefore leading to an overlap between the different requirements.	Under CRD V, the Pillar 2 capital requirement can no longer be used for macroprudential purposes. It became a purely microprudential tool, thereby clarifying its institution-specific nature. At the same time, CRD V provides flexibility to use the SyRB in a targeted fashion, to tackle specific systemic risks that are inherent in exposures of the banking system at a sectoral level. Accordingly, the EBA clarifies that a subset of sectoral exposures with the contribution of a risk profile element can be identified when this is appropriate, duly justified and proportionate, and those risks stemming from the targeted subset are systemically relevant, in accordance with an assessment recommended in the GL. Finally, the GL clarify explicitly that the sectoral SyRB should not be treated as a microprudential tool (see background and rationale). Nonetheless, the EBA sees merit in appropriate coordination and cooperation between the competent authority and the designated authority in order to facilitate the proper identification of subsets of sectoral exposures to which an SyRB may apply. This coordination is in line with similar requirements in other macroprudential instruments such as Articles 124 and 164 of CRR2.	The GL ask for coordination and cooperation between the designated and competent authorities in order to facilitate the proper identification of subsets of sectoral exposures to which an SyRB may apply.
	Still regarding NPLs as a criterion for applying SyRB, one respondent stated that there are already new and binding NPL rules that secure mandatory provisioning up to 100% of such exposures. This	The framework underlying the GL includes non-performing exposures as an element of the sub-dimension risk profile, which can supplement the dimension of type of exposures under specific circumstances in order to identify a subset of sectoral	The GL include an additional example in which the use of NPL as a risk profile is used for

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	would therefore duplicate binding rules recently adopted in the amendments to CRR.	exposures. The EBA sees merits in adding a hypothetical example in which NPL as a risk profile element is used to define a subset of exposures. Moreover, under the principle of flexibility, envisaged in the GL, the EBA considers that the SyRB, as a targeted macroprudential instrument, is suitable to tackle the cross-section structural nature of systemic risk that, for example, constitutes the main sources of system-wide increases in non-performing loans, acting as a preventive measure. In these terms, the sectoral SyRB, set taking a holistic view of all capital requirements, should be used to target additional risks to those identified by microprudential authorities when such additional risks pose systemic risk. Furthermore, based on the principle of proportionality reflected in the GL, the relevant authorities should assess the systemic relevance of the risks stemming from the subset of sectoral exposures they want to target. For these reasons, the EBA considers that an overlap between the SyRB reflected in the recommended framework with the non-performing rules does not exist.	identification purposes.
Inclusion of additional debtor subdimension	One respondent argued that another subdimension relative to the debtor should be added, allowing a distinction by size for NFCs. This could be used for example to differentiate rates for exposures to smaller businesses. The respondent further argued that big NFCs may, in some regards, and depending also on their activity (already covered in the draft GL) play a role	The EBA believes that the inclusion of an additional subdimension would entail clear benefits but will, at the same time, result in a more complex framework. To keep the balance, and after consideration, not expanding the number of existing subdimensions (and elements) seems most appropriate. Nonetheless, the relevant authorities would assess	No change

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	in spreading risks towards other firms (working with them, or in the same activity, etc.) as well as towards the financial system, giving them a kind of systemic characteristic. Moreover, smaller NFCs' financing, could be more affected by a given rate of SyRB, because the major part of their debt remains on credit institutions balance sheets while bigger NFCs' debt can be issued directly as bonds, and spread in the non-bank financial sector. The size of NFCs could follow the Eurostat taxonomy	how to implement these GL in their national jurisdictions to best fit their needs and risks.	
Question 2. What are the respondents' view on the three criteria for assessing systemic relevance of a subset of exposures?			
Definition of systemic risk /systemic relevance	According to some respondents, systemic risk should be defined in the GL. Another respondent mentioned that either (i) the principle of systemic relevance should be removed from the GL (Section 5 of the GL and other references to these criteria for assessing the systemic relevance of subsets of sectoral exposures), as it falls outside the mandate and scope of the EBA (such a definition remains in the scope of the national macroprudential authorities, as well as in the scope of the ESRB) or (ii) avoid speaking of 'systemic relevance of exposures' and stick to 'systemic relevance of the risk stemming from the subset of exposures'.	The definition of systemic risk is not in the mandate of the EBA. Therefore, the EBA agrees that the focus must be on the systemic relevance of the risks stemming from the subset of exposures and not on the systemic relevance of the subset itself.	The GL focus on the 'systemic relevance of the risks stemming from the subset of exposures'.
Need for methodology /specific metrics	One respondent mentioned the need for competent authorities to conduct a sound causality analysis for the identification of the systemic relevance of the risks stemming from the sectoral exposures, including empirical data analysis as well	A common standardised methodology, with quantitative and qualitative principles for assessing the systematic relevance of the risk stemming from sectoral exposures, is outside the scope of the EBA's mandate.	The GL ask for the disclosure of the national approach taken (including the materiality

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	as forward-looking scenario analysis with clearly defined cause-effect chains to ensure transparency and acceptance of the measure. Some respondents asked for a clear and standardised definition of the methodology, and argued that quantitative and qualitative principles for relevant authorities to assess the systemic relevance of sectoral exposures is needed to ensure a level playing field between different countries.	Nonetheless, the GL provide that relevant authorities should make a quantitative and qualitative assessment of the systemic relevance of the risk stemming from the subset of exposures, taking into account the following criteria: size, riskiness (including using forward-looking indicators) and interconnection. The EBA sees merit in the disclosure of the national approach taken when defining a subset of exposures in order to increase transparency. This can help credit institutions with their risk and capital management and planning, and facilitate reciprocity between Member States. Nonetheless, such disclosure must not jeopardise the stability of the financial system of the Member State and/or the EU.	thresholds used when applicable) in the identification of subsets of exposures in line with these GL.
Need for materiality thresholds at the level of institution (to reduce granularity / complexity / operational burdens)	One respondent mentioned the introduction of a materiality threshold at the level of the institution. That respondent suggests, as a rule, the application of any sectoral buffer may be waived if the institution’s exposure in the respective sector is below 3% of the institution’s total assets. Another respondent mentioned the need to adopt a principle of proportionality; small institutions should not be subject to a SyRB or be subject to the same level of requirement as systemically important institutions. Materiality thresholds could give rise to level playing field considerations, as banks either side of such a threshold would experience different requirements. It would be better to limit the granularity of the framework and	The GL encourages the relevant authorities to set materiality thresholds where appropriate when defining systemic relevance. Because of the homogeneity of markets across the EU, a unique threshold applicable for all sectors and jurisdictions is not viable. Exempting institutions from the application of the SyRB is out of the scope of the EBA’s mandate. Regarding addressing residual issues with Pillar 2, in CRD V Pillar 2 capital requirements can no longer be used for macroprudential purposes; therefore it is of utmost importance to have in the macroprudencial toolkit a flexible SyRB to mitigate systemic risks not covered by the other macroprudential instruments.	No change

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	allow supervisors to address residual issues as part of Pillar 2 measures. Paragraphs 20 and 21 should specify in what cases authorities should set material thresholds for the purpose of the assessment of systemic relevance.		
Need to avoid overlaps with the CCyB	Some respondents asked that the GL explicitly mention the need to guarantee and explain, when implementing the (sub)sectoral SyRB, the absence of any overlap with the CCyB in order to avoid double counting. Therefore, a transparent disclosure of the decision-making and determining of all macroeconomic buffers by the relevant authority is of utmost importance.	The current structure of the GL attempts to balance the need to ensure that neither multiple risk coverage nor overlaps with other instruments occur in the usage of the sectoral SyRB. These concerns are specifically noted in paragraph 4 of the executive summary, paragraph 5 of the background and rationale and Section 7 of these GL. Article 133(7) of CRD V already provides that the SyRB must not address risks that are covered by the CCyB. Article 133(8)(c) mentions that, when requiring an SyRB to be maintained, the competent or designated authority must comply with the SyRB not being used to address risks that are covered by the CCyB.	No change
Consultation process	One respondent mentioned that a requirement should be added to the GL that, prior to the establishment of a sectoral buffer by the relevant competent authority, a consultation process regarding the envisaged measures, as well as a detailed justification, should be initiated, with a minimum consultation period of 3 months.	A consultation period is out of the scope of these GL. The decision on how to process an activation of the SyRB lies within the relevant authority.	No change
Reporting requirements	According to one respondent, in order to ensure that the application of a sectoral SyRB will not result in the need for additional reporting requirements for institutions, the assessment of the systemic	The different subdimensions were chosen to allow a sufficiently flexible application of the sectoral SyRB that is suitable to the corresponding systemic risk. The use of subdimensions must be appropriate, duly	No change

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	relevance of sectoral exposures should also exclusively rely on data that are available to the competent authorities under the current reporting requirements.	justified and proportioned. In practice, only a few, if any, subdimensions will be used simultaneously. This will also keep additional reporting requirements to a minimum. Most subdimensions are based on already existing reporting items. Where common EU reporting was not available, the goal of the GL was not to create new reporting requirements but to give national authorities the option of using already available national data reporting. Data might not be available for all potential subsets at the EU level. However, to make the framework sufficiently flexible and futureproof, it should take into account the current developments in the area of national and EU data collections or improvements in data quality. Although some of the elements can only be monitored if microdata is available, leading to potential data gaps when calibrating or reciprocating an SyRB, developments with respect to AnaCredit, for instance, may make the calibration and reciprocation easier. Moreover, as mentioned in Section 7, the EBA outlines some actions that the relevant authorities may consider to facilitate the reciprocation process. Furthermore, any relevant authority must apply the sectoral SyRB in a way that strikes the right balance between the costs such measures can bring and its benefits to financial stability in the Member State in question. With this in mind, the EBA is of the opinion that the current framework provides national authorities with	

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
		the required flexibility to match the new scope of the SyRB, while limiting disproportionate data costs.	
Question 3. What are the respondents' view on whether the elements in Section 6 provide sufficient guidance for readers as to the nature of the subdimensions?			
Degree of detail / reporting requirements	Some respondents addressed concerns that the proposed dimensions are too detailed, and thus there may be an overlap with the microprudential risk assessment. In addition, some respondents stressed that there should be no further reporting requirements stemming from the application of the sectoral SyRB.	As answered previously, the GL clarify explicitly that the sectoral SyRB should not be treated as a micro-prudential tool (see background and rationale). Under CRD V, the SyRB can be tailored to become a targeted macroprudential instrument to mitigate system-wide risks, setting aside factors with an idiosyncratic nature. At the same time, the GL envisage an assessment that relevant authorities may conduct to evaluate the systemic relevance of the risks stemming from the subset of sectoral exposures they want to target. Finally, the microprudential risk assessment is performed at the institution level, compared with the system-wide perspective of the SyRB. Nonetheless, the EBA sees merit in appropriate coordination and cooperation between the competent authority and the designated authority in order to facilitate the proper identification of subsets of sectoral exposures to which an SyRB may apply. This coordination is in line with similar requirements in other macroprudential instruments such as Articles 124 and 164 of CRR2. The different subdimensions were chosen to allow a sufficiently flexible application of the sectoral SyRB that is suitable to the corresponding systemic risk. The use of subdimensions must be appropriate, duly justified and proportioned. In practice, only a few, if any, sub-dimensions will be used simultaneously. This	The GL ask for coordination and cooperation between the designated and competent authorities in order to facilitate the proper identification of subsets of sectoral exposures to which an SyRB may apply.

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
		will also keep additional reporting requirements to a minimum. Most subdimensions are based on already existing reporting items. Where common EU reporting was not available, the goal of the GL was not to create new reporting requirements but to give national authorities the option of using already available national data reporting. Moreover, there is no overlap with microprudential supervision, as the sectoral SyRB focuses on the entire banking system, or subsets thereof, and may only be used to address systemic (not idiosyncratic) risks.	
Debtor or counterparty sector	One respondent suggested that the sub-elements of a legal person of the GL should be aligned with the debtor or counterparty sector definition applied by the CRR. They voiced concerns that, with a different definition, existing reporting items based on the CRR definition may not be used for the sectoral SyRB. One respondent suggested using the more detailed second level of NACE instead of the first level.	The CRR/CRD framework does not provide definitions of either a legal or natural person. However, the definition of legal person is in accordance with Article 1(5) of AnaCredit Regulation (EU) 2016/867 to ensure harmonized reporting based on common definitions. The three additional sub-categories laid down in Section 6.1 of the GL were added in line with the already existing common FINREP data reporting items to accommodate national specificities and to avoid cases in which the application of the sectoral SyRB is hindered.- The decision to use the first level of the NACE code was made on the common grounds of reducing complexity and granular data requirements. The first level of NACE codes can be sufficient to address most risks in an effective and efficient manner.	No change

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
Type of exposure	Some respondents suggested using (exclusively) FINREP categories and thus not including paragraph 27 in the GL. A few respondents argued that there is no CRD mandate to define other than retail exposures as a relevant category. They pointed out that only all exposures and retail exposure are explicitly mentioned within the CRD.	Section 6.2 was included in the GL given that the wording of the CRD explicitly uses these categories to define exposures. Moreover, distinguishing between retail and non-retail exposures is advisable from a risk analysis perspective. Although the CRD only mentions all exposures and retail exposure explicitly, it also allows subsets of these categories to be defined.	No change
Risk profile	Some respondents proposed limiting the scope of the subdimensions based on risk profiles to non-performing loans and risk weights. Another petitioner suggested adding various other subdimensions including the exposures' dates of initiation, the maturity, and the interest coverage ratio.	The proposed subdimensions reflect a range of important risk categories allowing, as far as possible, a flexible use of the sectoral SyRB without increasing complexity.	No changes
Question 4. What are the respondents' views on the potential challenges in applying this framework to design a systemic risk buffer measure?			
Potential double-counting of risks	Some respondents highlighted the potential for double counting of risks and called for a clear differentiation between macro- and microprudential measures to avoid duplication of risk coverage. In this regard, it was suggested that competent authorities should perform extensive prior causality analysis to verify and corroborate non-overlapping application of the sectoral SyRB. It was also proposed that highly event-driven risks (e.g. climate risks, pandemics) should be excluded	The EBA agrees on the importance of avoiding potential overlaps between sectoral SyRB and other capital buffers This is also required by CRD V (Article 133(7) and Article 133 (8)(c)). The EBA also agrees that overlaps with other micro- or macroprudential measures should be avoided. However, the EBA does not consider it appropriate to exclude, *ex ante,* certain types of risks (e.g. event-driven risks) that could potentially be addressed by the sectoral SyRB. The assessment of those risks and	No change

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	from the assessment of systemic risks, since they are already included in existing risk types.	potential overlaps should be left to the discretion of relevant authorities.	
Frequency of buffer setting	Some respondents were of the view that sectoral systemic risks may be subject to increased volatility and suggested that the sectoral SyRB should be set and disclosed on a quarterly basis.	Although, sectoral risks may indeed include more volatile, cyclical elements, the EBA is of the view that considerable parts of the sectoral SyRB are of a structural nature, which clearly distinguishes it from the CCyB, which is explicitly designed to address fast-changing cyclical risks. Having said that, the identification of subsets is within the scope of the GL but the setting of sectoral SyRBs is not.	No change]
Data availability	Some respondents were of the view that the sectoral SyRB framework can lead to possible inconsistencies with other reporting obligations and may result in additional implementation costs for banks. It was also pointed out that data gaps related to different definitions and therefore different calculations will have a negative impact on the reciprocity sought by these guidelines. In addition, it was suggested that the establishment of an up-to-date centralised report, which would allow banks and other interested stakeholders to monitor the use of the SyRB across the EU, would be very useful.	Most sub-dimensions are based on already existing reporting items. Data might not be available for all potential subsets at the EU level. Where needed, additional data could be required, provided that the data request is proportional to the identified risks. However, there is merit in explicitly stating the benefits of choosing pre-existing data sources. While some of the elements can only be monitored if micro data is available, leading to potential data gaps when calibrating or reciprocating an SyRB, developments with respect to AnaCredit, for instance, may make the calibration and reciprocation easier. Moreover, as mentioned in Section 7, the EBA outlines some actions that the relevant authorities may consider to facilitate the reciprocation process. Furthermore, any relevant authority must apply the sectoral SyRB in a way that strikes the right balance between the costs such measures can bring and its	The GL suggest the use of pre-existing data sources where possible.

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
		benefits to financial stability in the Member State in question. With this in mind, the EBA is of the opinion that the current framework provides national authorities with the required flexibility to match the new scope of the SyRB, while limiting disproportionate data costs. The EBA supports the proposal on the publication of the applicable sectoral SyRB rates across jurisdictions by the ESRB, as it would contribute to consistent application between Member States. .	
Granularity of requirements	Some respondents pointed out that the proposed framework leads to increased granularity of regulatory requirements and suggested that higher compliance costs should lead to lower capital requirements to compensate for the financial burden.	The EBA is of the view that macroprudential requirements should be calibrated in a way that is commensurate to the systemic risks they aim to address. Implementation of more granular measures may in fact be less costly , as presented in the accompanying impact assessment, due to the possibility of calibrating them in a more targeted manner, thus avoiding the activation of broad-based measures that apply to all (or a larger set of) exposures.	No change