

AFME response to the EBA consultation on the Draft RTS specifying the types of factors to be considered for the assessment of appropriateness of risk weights under Article 124 (4) of Regulation 575/2013 and the conditions to be taken into account for the assessment of appropriateness of minimum LGD values under Article 164 (8) of Regulation 575/2013.

27 July 2021

AFME welcomes the opportunity to comment on the Draft RTS specifying the types of factors to be considered for the assessment of appropriateness of risk weights under Article 124 (4) of Regulation 575/2013 and the conditions to be taken into account for the assessment of appropriateness of minimum LGD values under Article 164 (8) of Regulation 575/2013.

AFME and its members have carefully considered the text of the draft RTS, which is appropriate and coherent in terms of its purpose.

With regard to the specific questions on the consultation, we only have one comment related to question 2. We believe the suggestion to immediately include climate risk in the scope of macro-prudential factors would pre-empt the report of the EBA (due in 2023) to establish the link between green exposures and a lower risk of these exposures. It would also overlap other initiatives such as the ECB guide on climate risk implemented last year and the European Commission's proposal to consider climate risk in the macro-prudential toolkit review due in 2022 and announced in the Sustainable Finance strategy on 6 July.

AFME and its members are of the view that it is important to wait for the deadline given by the EBA in its roadmap to establish the link between green exposures and a lower risk of these exposures, as well as other prudential initiatives and assessments on climate risk that are in the pipeline, before determining a prudential treatment for these exposures. Such treatment should be consistent across all the relevant pieces of EU legislation on this topic.

Once the nature of any link between prudential standards and green exposures has been established, a specific or differentiated prudential treatment for green exposures might be defined if appropriate and risk sensitive, however we note a pillar 2 treatment may be more effective. Consequently, establishing this relationship in these RTS would front run the conclusions of the EBA's other work on ESG, the ECB's climate and environment risk guide, which is in the process of being implemented, and initiatives such as the Commission's review of macroprudential framework. Any consideration of adjusting the prudential framework to account for climate risk should be undertaken coherently and in coordination with the ECB and other regulators such as the Basel committee (which is due to issue a consultation on this topic).

For the purpose of this RTS we would therefore recommend the EBA avoids referencing climate risk in the RTS in the determination of the loss expectation when assessing the appropriateness of RW, as well as in the assessment of the appropriateness of the minimum value of LGD.