

POSITION PAPER



ESBG response to the EBA consultation on draft amendments to Guidelines on the systemic risk buffer

ESBG (European Savings and Retail Banking Group)

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Question 1. Do you agree that the proposed use of more granular economic activity classifications (including NACE level 2 or more granular levels where necessary) is appropriate and sufficient to enable authorities to effectively target exposures subject to climate transition risk while limiting unintended consequences for transition financing? If not, please explain and suggest alternative approaches or safeguards.

No, we disagree. NACE codes primarily cover economic activities or sectors that can only be linked to a specific climate risk in exceptional cases. This classification appears unsuitable, particularly for large conglomerates.

Question 2. Do you consider that introducing an additional subdimension related to Energy Performance Certificates (EPCs) or energy consumption buckets within the risk profile would be appropriate to better capture climate-related risks? If so, please comment on its relevance and potential implementation challenges, as well as data availability and possible proxies that relevant authorities could consider.

Question 3. Do you consider the proposed extension of geographical granularity (including the use of LAU level) appropriate for identifying exposures subject to climate physical risks? Please comment on the relevance of the proposal and potential implementation challenges, as well as data availability and possible proxies that relevant authorities could consider.

We are unable to provide a comprehensive assessment of this matter and, in any case, fundamentally oppose any amendment to EBA/GL/2020/13 (see our comments on Question 6 below). As a precautionary measure, however, we urge that any amendments to EBA/GL/2020/13 should not result—even indirectly—in new obligations for credit institutions. That said, the scope of the reporting requirements imposed on credit institutions should be reduced. Additional requirements to maintain further data that has not previously been collected, and to report it on a regular or even ad hoc basis, must be avoided at all costs. Such requirements also run counter to the goal of simplifying banking supervisory law and reducing bureaucracy.

Furthermore, we would like to point out that, in general, a higher level of granularity in geographic information allows only for extremely limited conclusions regarding physical climate risks.

While the use of LAU level (municipalities) is consistent with the structure of the current sectoral SyRB framework, LAU granularity is too crude to meaningfully capture physical climate risks. LAU boundaries may not fully capture micro-geographical variations (e.g. flood-prone zones within the same municipality). In practice, physical climate risk mapping is conducted on a significantly more granular level than LAU, often tied to hazard zones rather than administrative borders.

Relying on LAU definitions may therefore distort risk assessments and misalign capital requirements with actual hazard footprints. A more risk sensitive and credible approach requires higher resolution data that are harmonised across jurisdictions and aligned with real hazard exposure.

We believe that analysing data for local climate risks at the LAU level requires consistently more granular data maintenance, which is uneconomical from a cost-benefit perspective, especially since a company's headquarters says nothing about the location of its economic activities. Even recording branch offices does not necessarily reveal the location of the production facility exposed to climate risk.

Therefore, institutions should determine individually if their assets are exposed to climate-risks.

Question 4. Do you agree with the proposed flexibility to combine different dimensions (e.g. type of counterparty, economic activity, geographic area, type of collateral) when defining subsets of sectoral exposures for SyRB purposes? In your view, does this flexibility sufficiently support risk sensitivity while preserving transparency and comparability across jurisdictions?

While combining multiple dimensions (type of counterparty, economic activity, geography, collateral type) can help improve risk sensitivity, it is important to recognise that climate-related and other ESG-related risk factors constitute only one set of drivers among many that influence systemic risk. A design that disproportionately emphasises ESG-specific dimensions risks overstating their relative importance and may lead to an unduly complex framework.

In addition, flexibility should not come at the expense of transparency, proportionality and cross jurisdictional comparability. Excessive national discretion or overly granular national approaches risk reducing the comparability of capital requirements across Member States and increase complexity and compliance burden. A heterogeneous application across jurisdictions could in turn affect comparability and reciprocity and thereby create an unlevel playing field.

To ensure harmonisation and credibility, the rationale and methodology for combining dimensions should be clearly articulated and grounded in robust risk evidence and operational complexity should remain aligned with actual risk materiality. Proportionality considerations should be explicitly recognized. Furthermore, data availability, quality and consistency across jurisdictions should be a key precondition, to prevent mechanistic or unstable outcomes and cross-border comparability be preserved.

While the use of a wide variety of dimensions may seem more risk-appropriate at first glance, it would also lead to a more diverse and frequent use of the SyRB tool. However, the more specific the selection of certain risks, the less suitable the SyRB is as a capital add-on, since a low level of exposure results in virtually no actual impact on the capital ratio. The effort involved in determining and reporting many specific buffers, along with the ongoing monitoring of materiality thresholds, appears disproportionately high—especially when the impact is low.

Finally, the introduction of additional complexity in the SyRB design should be assessed carefully against the broader EU level strategic direction. Both the Omnibus

simplification package and the forthcoming Commission report on competitiveness emphasise simplification, proportionality and reduced regulatory complexity. Introducing highly granular or multilayered ESG-related subdimensions into the SyRB framework may be difficult to reconcile with these priorities. The management of such specific risks should therefore be left to the institutions within their internal risk management frameworks. This is already subject to supervisory oversight anyway.

Question 5. Do you consider the strengthened provisions on information sharing and the use of harmonised data sources adequate to facilitate the assessment and reciprocation of SyRB measures across Member States? Please indicate any remaining obstacles to effective reciprocity and how they could be addressed.

Question 6. Do you have any additional comments on these draft Guidelines amending EBA/GL/2020/13 on the appropriate subsets of sectoral exposures to which competent or designated authorities may apply a systemic risk buffer?

We question the timing of the revision when assessed against the current European policy agenda focused on regulatory simplification and the preservation of competitiveness of the EU financial sector. The revision coincides with the launch of the Omnibus simplification package and precedes the forthcoming European Commission report on competitiveness (currently under consultation), which includes an assessment of the macroprudential framework as a whole. Both initiatives explicitly aim to reduce regulatory complexity, enhance proportionality and mitigate cumulative compliance costs for European companies and financial institutions. In this context, introducing additional guidance that effectively expands the scope and operational complexity of the SyRB appears misaligned with the broader strategic direction set at EU level.

A postponement would be particularly important considering that the SyRB, as a purely European instrument that is not rooted in the Basel framework and lacks international harmonisation, undermines the competitiveness of EU banks. Against this backdrop, we strongly reject the revision of EBA/GL/2020/13. We believe it would be more effective to refrain from making individual adjustments until a decision has been reached on the comprehensive revision of the capital buffer framework currently under political discussion. This applies in particular if such a revision were to have indirect consequences for credit institutions, for example with regard to reporting requirements.

Furthermore, we believe that authorities should refrain from applying macroprudential measures to address climate related risks, as such measures are unlikely to be well-targeted. Climate impacts do not distribute uniformly across sectors or geographies, and broad based macroprudential tools risk generating unintended consequences.

The prudential framework already provides robust and comprehensive mechanisms under Pillar 1 and Pillar 2 to identify, assess and mitigate systemic and macro-prudential risks. Pillar 1 ensures minimum capital requirements for risks that are quantifiable and sufficiently modelled (including ESG-related risks), while Pillar 2 offers supervisors the



flexibility to address institution-specific and system-wide risks that are not adequately captured under Pillar 1, including emerging or forward-looking risks.

ESG factors operate as risk drivers in the same way as other drivers that can affect traditional categories of financial risks. Accordingly, they should primarily be reflected directly in risk weights and in PD and LGD estimates, similar to other risk drivers, rather than through separate capital buffers.

Although current climate risk data are subject to significant uncertainty and are predominantly forward looking, and reflecting ESG-related risks through highly specific risk weights may, for the time being, not be feasible or appropriate, supervisors already possess the necessary tools to impose additional capital requirements or qualitative measures tailored to the specific risk profile of each institution under the Supervisory Review and Evaluation Process (SREP), including where ESG-related risks are insufficiently captured in the existing models.

Over time, enhancing data availability and improving risk sensitive modelling remains the soundest way to ensure that ESG-related risks are captured consistently within the capital framework. Introducing dedicated ESG-related buffer requirements would risk double counting the same underlying risk and thereby undermine the internal consistency of the capital framework.

A climate related SyRB could also hinder the transition in sectors where financing needs are greatest. These sectors often require significant investment in decarbonisation and adaptation. Applying additional capital buffers to such sectors may restrict banks' capacity to support the transition. Similarly, applying a SyRB to geographically defined high-risk areas may adversely affect households in vulnerable regions and discourage lending for energy efficiency or climate resilience improvements.

In addition, further increasing the granularity and complexity of the SyRB framework would make it more difficult to maintain a harmonised macro-prudential rulebook across Member States. A highly flexible or multi-dimensional approach increases the risk of divergent national implementations, which in turn undermines cross-border comparability and complicates the application of reciprocity arrangements. Limited reciprocity weakens the effectiveness of macro-prudential measures and may create uneven competitive conditions for banks operating across jurisdictions. Ensuring harmonisation is therefore critical both for the functioning of the internal market and for safeguarding a level playing field within the EU financial sector.



About ESBG (European Savings and Retail Banking Group)

ESBG represents the locally focused European banking sector, helping 32 savings and retail banks in 27 European countries strengthen their unique approach that focuses on providing service to local communities and boosting SMEs. Advocating for a proportionate approach to banking rules, ESBG unites at EU level some 859 banks, which together employ 620,000 people driven to innovate at 37,000 branches. ESBG members have total assets of € 6,35 trillion, provide € 3,72 trillion in loans to customers, and serve 163 million Europeans seeking retail banking services. ESBG members commit to further unleash the promise of sustainable and responsible 21st century banking.

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