

Consultation Response

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 in accordance with Article 133(5)(f) of Directive 2013/36/EU

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The Association for Financial Markets in Europe (AFME) welcomes the opportunity to comment on **the EBA's consultation on draft guidelines amending the subsets of sectoral exposures to which authorities may apply a systemic risk buffer**. AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society.

AFME is the European member of the Global Financial Markets Association (GFMA) a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) in Asia.

AFME is registered on the EU Transparency Register, registration number 65110063986-76.

We summarise below our high-level response to the consultation, which is followed by answers to the individual questions raised.

Overall Observations and AFME Position

As a general observation, the industry has noted the unexpected timing of the proposed revision of the EBA Guidelines, which raises significant concerns when assessed against the current European policy agenda focused on regulatory simplification and the preservation of competitiveness of the EU financial sector. The publication of this revision coincides with the launch of the Omnibus simplification package and precedes the forthcoming European Commission report on competitiveness, both of which 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 Systemic Risk Buffer ('SyRB') appears misaligned with the broader strategic direction set at EU level.

At a more fundamental level, AFME and its members continue to express the view that the SyRB should be discontinued – it provides unnecessary layering, unwarranted national discretions, complex reciprocation mechanisms and unpredictability. More widely and significantly, the SyRB is a unique feature of the EU capital framework and has no equivalent either in the BCBS standards or in other major jurisdictions. It is therefore an example of a European gold-plating of BCBS policy and we recommend instead that the EU should maintain consistency with the BCBS framework and avoid undue international fragmentation.

Conceptually, there does not appear any clear rationale for the use of macroprudential tools to address concerns in relation to climate risk. The EBA has concluded in a section titled 'cost/benefit analysis' that there is no need for an in-depth quantitative impact assessment. However, creating a new buffer for every emerging uncertainty risks triggering an on-going inflation of capital requirements and increased capital requirements could also impede the transition of the European economy, impacting growth and consequently banks' resilience.

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We find questionable therefore the assessment made by EBA about the “low-level technical” nature of the proposed amendments and the alleged lack of need for an in-depth quantitative impact assessment. In particular, to this day, no EU institution, agency or body has published a dedicated impact assessment or cost-benefit analysis specifically assessing the SyRB, as it was introduced in the CRD IV without any comparative analysis of its relevance relative to available alternatives. Overall, it would appear that an option that allows macroprudential authorities to take into account climate risks for the purpose of determining a potential buffer has been opened before any serious analysis regarding the relevance of such an inclusion in the SyRB, that still suffers from a lack of adequate methodology enabling its operationalisation and calibration.

Moreover, the overall EU regulatory framework is characterised by complexity due to a plurality of buffers and to the heterogeneity in the way they are applied at national level, leading to overlaps in requirements between micro and macroprudential tools. Activating a systemic risk buffer to address climate risks could therefore further exacerbate the fragmentation across Member States and as we have mentioned it would be more advisable to streamline the structure of the various stacks and to enhance the framework’s transparency.

The simplification of the capital buffer framework should also be properly calibrated in order to ensure it is capital neutral or negative for banks given existing overlaps. There should be a clear delineation of macroprudential and microprudential objectives to mitigate overlap and potential double counting and the risk of asymmetrical implementation across jurisdictions should be avoided. The review should avoid harmful consequences on competitiveness and profitability and improve the level playing field with other jurisdictions.

Setting a SyRB on climate risks without clear evidence of the systemic nature of these risks will damage the competitiveness of the European financial sector and will in the medium-term impact the ability of institutions to finance the transition of the Union economy towards a sustainable economic model.

We would note in addition, that transition risk and physical risk are already addressed through Pillar 1 (internal models notably in the credit risk, operational risk, market risk) and Pillar 2 discretionary measures in the SREP and Prudential Transition Plan requirements, as well as with the Pillar 2 Guidance (2029 consequences of the 2027 EBA stress test). Notably, with the planned inclusion of environmental risks in the EBA SREP guidelines (c.f. EBA Consultation Paper EBA/CP/2025/21), climate risk will be fully embarked in the SREP process and thus fully reflected in the P2R of banks across all risk dimensions (business model, credit market and operational risks).

As such, applying a SyRB for the same underlying risks would likely lead to double-counting of climate risks.

Beyond these considerations, we believe Pillar 2 tools are inherently better suited than a SyRB to address any possible targeted potential systemic climate-related financial risks for several reasons:

- The activation of a SyRB's for climate risks would increase fragmentation across Member States, given this macroprudential tool is in the remit of national macroprudential authorities.
- It is unclear what time horizon would be considered for physical risk and whether this would be reflective of the actual maturity of banks’ exposures in dynamic balance sheet
- Pillar 2 measures are more flexible and risk-sensitive. They can be tailored to a bank's specific risk profile, discussed in supervisory dialogue, and can more easily account for counterparties' transition plans and risk mitigants for banks, such as insurance for physical risk.

Finally, and as a prerequisite to consider any new macroprudential treatment of climate risks, it is essential to first finalise the microprudential framework to gain a holistic view of how these risks are covered. Against this background, a complete understanding of Pillar 1 is first needed and requires completing the work mandated by Article 501c of the CRR (cf. EBA reports and potential subsequent legislative process). Whereas the CRD defines the SyRB as a tool to mitigate macroprudential or systemic risks, including macroprudential or systemic risks arising from climate change not sufficiently covered by Pillar 1, the CCyB and O-SII/G-SII buffers, it is only after a holistic micro and macroprudential view is established that a proper assessment of any residual, uncovered climate risks can be conducted. Not every risk needs a macroprudential solution, and when considering the use of a macroprudential tool for targeting a systemic risk, there would need to be sufficient clarity and evidence from regulators that this is indeed the most effective approach.

We provide in the section below further counter-arguments to the work proposed although this does not alter in any way our over-riding view that the SyRB should be discontinued and that for the time being climate risk does not merit a dedicated form of macroprudential response. As noted, it is important to consider that the proposals will have a negative impact on transition and adaptation finance, with a negative effect on real economy and European communities.

Questions

Q1. 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, NACE codes as such may not effectively identify exposures subject to climate transition risk, since in some cases NACE classifications may not fully or accurately capture a company's activities. Large companies, in particular, may operate across several business lines, some of which are more "green" than others. Moreover, NACE classifications are inherently backward-looking and may not be able to discriminate among clients moving in the direction of a low carbon transition and those making only slow progress, creating a risk of penalising businesses making genuine decarbonisation investments.

To support the transition to a low-carbon economy and avoiding unintended consequences, Guidelines should recognise data limitations and provide explicit guidance for handling misclassified, ambiguous, or unavailable NACE assignments – for example applying a "look-through" approach or using conservative default classifications.

Q2. Do you consider that introducing an additional subdimension related to 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.

We do not consider it necessary, and it would increase the complexity burden on the banks, being a double counting (EPC is already considered in the collateral evaluation). The EPC is also a European metric, and is not available in other jurisdictions.

Q3. 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.

The approach based on Local Administrative Units (LAU) is even more granular than NUTS, while it is not harmonised across the EU jurisdictions, creating complexity for reciprocity and may drive inconsistent outcomes.

Requiring this level of granularity from the banking sector may therefore be overly demanding and would, in addition, entail high associated costs and increased reliance on external providers. The higher granularity needed for risk assessment will face the challenges surrounding diverse data quality and availability across geographical areas. That does not consider either the situation of corporates with several locations across different geographies, where physical risk assessment should reflect the location of material assets or revenue-generating operations, rather than relying solely on the obligor's legal domicile. Finally, it would penalise specific European communities, where physical risk is higher as well as the need for adaptation finance.

Q5. Do you consider the strengthened provisions on information sharing and the use of harmonised data sources adequate to facilitate the assessment and reciprocity of SyRB measures across Member States? Please indicate any remaining obstacles to effective reciprocity and how they could be addressed.

While we consider the SyRB should be deleted as per considerations in the overall observations, in case it remains, we believe the application of the SyRB reciprocity should be reviewed. Establishing a clear ESRB methodology for application of the reciprocity principle that would consider that exposures already surcharged locally should not be included in the calculation that determines that exposures affected by the SyRB in a group are sufficiently material to trigger reciprocity. The CRD should be aligned with the ESRB framework and clarify the calculation of the reciprocity activation threshold.

In addition, the ESRB methodology should clarify that reciprocity should not be applied at a level of consolidation that does not exceed the materiality threshold set by the competent authorities. More specifically, the calibration of the materiality threshold for the reciprocity of a sectoral SyRB should reflect the approach set out in Recommendation ESRB/2017/4 (amending ESRB/2015/2) and the ESRB Handbook on operationalising macroprudential policy, whereby the threshold is assessed at entity level and complemented by a relative metric linked to the relevant exposures. Exposures that have already triggered the SyRB at local level should therefore be excluded from the threshold calculation, as their inclusion at consolidated level leads to multiple counting effects (local application, threshold assessment and subsequent consolidated application), resulting in an over-calibration of capital requirements not aligned with the objective of Article 133 CRD.

Moreover, reciprocity is intended to mitigate cross-border spillovers (both inward and outward), and therefore the materiality threshold should focus exclusively on exposures that give rise to such spillovers. In this context, exposures already subject to a SyRB at local level—typically originated and held via subsidiaries—should be excluded from the threshold calculation, as they do not create cross-border arbitrage risks. Including these exposures would not contribute to the objective of the measure and would instead lead to double counting and potential competitive distortions across Member States

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