

**AEB response to the EBA consultation on the Draft Guidelines amending
EBA/GL/2020/13**

The Spanish Banking Association (hereinafter AEB) would like to thank the EBA the possibility to comment the EBA consultation on the Draft guidelines amending EBA/GL/2020/13. This response reflects the position of AEB regarding the EBA consultation on the amendments to the Guidelines on the appropriate subsets of sectoral exposures to which competent or designated authorities may apply a Systemic Risk Buffer (SyRB). While aligned with many of the concerns expressed at European level by the EBF, this document reflects AEB's specific views.

As general comments, we would like to stress that:

- SyRB should be deleted as a macroprudential layer and therefore *the EBA Guidelines on its sectoral application should also be withdrawn*.
- The prudential framework already provides tested mechanisms in Pillar 1 and Pillar 2 to identify and address systemic and idiosyncratic risks (including emerging ones).
- In addition, the macroprudential framework should not be the tool to address concerns on ESG risks.
 - The aim for the macroprudential framework is to increase the resilience of the institutions and to smooth the credit cycle by adjusting capital requirements countercyclically. In case of ESG risks, this would not be achieved. On the contrary, increasing the capital requirements would impede the transition of the economy and therefore impact the economy growth and consequently banks' resilience. In any case, it is important to have a comprehensive view of all the regulatory and supervisory tools in order to avoid any potential capital requirements overlapping.
 - Applying the current macroprudential framework to contain systemic climate-related financial risks is likely to be ineffective and potentially counterproductive for financial stability, as standard macroprudential instruments could exacerbate transition risks. Higher capital requirements on the exposures of carbon intensive sectors would be counterproductive and could jeopardize the transition of the economy, especially of emerging countries.

- Moreover, we consider that there should be **international coordination** in the development of any macroprudential approaches to climate risk, to ensure comparability and a level playing field across markets.
- The SyRB is, after all, an exclusively European requirement that generates **fragmentation within the EU** due to its broad and unclear definition and creates an uneven playing field compared to other jurisdictions.
- Given the broad definition of the SyRB and the flexibility of its framework, its **application across Member States has been heterogeneous** in terms of amount, portfolios, and risks covered.
- In the current regulatory context, with discussions underway on the possible simplification of the regulatory framework (including the capital stack), we do not see the added value of these guidelines, which, **far from simplifying matters, introduce additional elements into the European framework** and further encourage fragmentation in the use of this buffer across Member States (MS). That's why we consider that the timing of this consultation is questionable, given that most current simplification proposals consider eliminating the SyRB.
- In addition, **no impact analysis has been conducted to identify potential overlaps** with other requirements, such as Article 458 CRR, P2R, P2G, and other buffers. These potential overlaps further increase the complexity of using the SyRB.
- Climate-related risks **evolve rapidly as new scientific evidence, policy developments, transition pathways and technological changes alter their magnitude and distribution. The SyRB level is not expected to change significantly or frequently**, so it is unsuitable in contexts where authorities need agile tools capable of responding quickly to emerging risks. Other tools like targeted supervisory measures can be adjusted more dynamically and are therefore better suited for environments characterized by rapid risk build-up as climate-related risks.

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 and transition risks generating unintended consequences for transition financing. Risk profiles can vary significantly within the same NACE category depending on factors such as technology mix, energy sources, transition strategies, geographic location and time horizon. This is particularly evident in sectors such as energy, manufacturing and transport, where transition pathways differ widely within a single NACE code. Large companies, in particular, may operate across several business lines, some of which are greener than others.

Moreover, **NACE codes do not always accurately reflect firms' underlying activities**, especially in the case of large corporates with diversified business models and heterogeneous risk profiles. Overreliance on such classifications may therefore mask underlying heterogeneity and lead to misidentification of actual risk and could generate a signaling effect that undermines the necessary financing of companies' transition.

Climate-related risk exposure in banks' credit portfolios is **inherently bank-specific**, shaped by individual institutions' client selection, engagement practices and portfolio composition. As a result, the **Pillar 2 framework is better suited to capture these institution-specific characteristics**, whereas an overly generic SyRB would inevitably overlook them. This is further reinforced by the dynamic nature of transition risks, which are strongly influenced by evolving policy and regulatory environments that static classifications cannot adequately capture.

Finally, **increased granularity significantly raises data requirements** (and higher associated costs) at a time when reliable, comparable and forward-looking data, particularly for SMEs, remain scarce. For institutions with predominantly retail portfolios, the relevance of NACE classifications is even more limited, as a substantial share of climate-related exposures arises from residential mortgage lending rather than corporate activities. Any enhanced granularity should therefore remain proportionate and avoid undermining transition financing, particularly in sectors temporarily exhibiting higher risk while contributing to long-term climate objectives.

The use of reliable proxies, the development of public and interoperable databases, and methodologies that take into account corporates' transition and investment plans, such as

the ECB's climate factor approach combining sector-specific stressors, issuer-specific exposure and asset-specific vulnerability, **would allow for a more accurate, consistent and risk-based** assessment of climate transition risk across jurisdictions.

Q2. 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.

At this stage, the use of Energy Performance Certificates (EPCs) **raises significant implementation challenges**. Data quality and availability remain uneven across Member States, with many EPCs outdated or not renewed following building renovations, particularly for older properties. Integrating EPCs into retail portfolios would require large-scale, automated data infrastructures, while persistent non-uniformity in methodologies and quality standards across jurisdictions makes EPCs unsuitable for comparative or prudential purposes. Moreover, EPCs do not operate in isolation: existing risk-mitigating factors such as low LTV ratios already influence risk profiles and are reflected in collateral valuations. **Reusing EPCs within a SyRB subdimension would therefore risk double counting and provide limited additional supervisory insight**. EPCs are also a strictly European metric, not available in other jurisdictions, which presents further challenges for European banks with international portfolios and for assets located in countries where EPCs are not mandatory or not priced into market valuations.

Against this backdrop, **it is recommended that EPCs should not be used, at least at this stage, for the calibration or application of the SyRB**. Any future consideration would first require the establishment of minimum, **harmonised quality standards across Member States** and clear guidance on how differences between energy classes would translate into capital implications, including cases where EPCs no longer reflect the actual condition of the property. Crucially, the framework should explicitly avoid discouraging financing for renovation and energy-efficiency improvements, which are essential to achieving climate transition objectives. A poorly designed SyRB targeting energy-intensive assets risks constraining precisely the investments needed for decarbonisation and could ultimately undermine the EU's ability to meet its greenhouse gas reduction targets.

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. The issue we see is the lack of a uniform criterion across all countries, which complicates its applicability. Requiring this level of granularity from the banking sector may therefore be overly demanding (at best a nice-to-have) and would, in addition, entail high associated costs and increased reliance on external providers.

Solutions:

- Permit the use of recognized public or insurance-based risk maps as appropriate proxies (Simple and Auditable): Base the location on the available geocoding of the portfolio and aggregate consistently to a global standard level (e.g., ADM2/GAUL) when lower granularity is not feasible.
- Extending geographical granularity to the LAU/municipality level may be **conceptually attractive for capturing the local nature of certain physical hazards; however, it presents significant limitations** for widespread prudential application. In particular, climate data and many available hazard maps do not consistently offer robust resolution at the municipal level (provincial or regional scales being more common), which can create a sense of false precision. Furthermore, the volume of data and its processing require long and complex internal technological developments (GIS infrastructure, integration, governance, and controls).
- Material gaps in geolocation persist across several portfolios, especially in Corporates and Project Finance:
 - o In Corporates: Identifying productive assets usually requires the acquisition and consolidation of heterogeneous external sources (commercial and/or open source) with uneven coverage.
 - o In Project Finance: There is additional difficulty regarding linear assets and obtaining detailed layouts or locations.
- In the Stock: Incomplete postal addresses are frequent.

Finally, LAU is a European standard that cannot be extrapolated to other geographies, which is critical for European banks with global portfolios. Therefore:

- The use of globally comparable administrative levels (e.g., GAUL/ADM) should be considered. It is essential to ensure that criteria are stable, auditable, replicable, and comparable, a condition that is particularly necessary if the output is used to calibrate a SyRB (Systemic Risk Buffer).

- Promote harmonized European physical risk databases. The standardization and availability of a common climate/hazard dataset at the banking (or supervisory) level, will allow entities to conduct their analysis using the same database, thereby reducing methodological dispersion and uncertainty. Standardization should include, at a minimum: (i) hazard, (ii) exposure, (iii) vulnerability/damage, (iv) outcome metric, and (v) homogeneous reporting.

Q4. 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?

Climate-related risks are multi-factor and highly context-specific, which means that combining different dimensions, such as type of counterparty, economic activity, geographic location and type of collateral can help better capture underlying risk drivers and enhance risk sensitivity. Allowing competent authorities a degree of flexibility to combine relevant data points may therefore avoid overly broad or blunt sectoral measures. However, this flexibility has limits, particularly for retail portfolios where certain dimensions (such as the economic activity of natural persons) have limited relevance to climate risk. Excessive combinatorial granularity can increase operational complexity and compliance costs without delivering proportionate improvements in risk differentiation.

While flexibility is supported in principle, it should not come at the expense of transparency, proportionality and cross-jurisdictional comparability. Uncoordinated or overly granular national approaches risk reducing the comparability of capital requirements across Member States and increasing the burden for cross-border banking groups. Flexibility can only be effective if exercised within a clear and harmonised framework, supported by robust safeguards: clearly articulated methodologies grounded in sound risk evidence; proportional granularity aligned with risk materiality; minimum standards for data availability, quality and consistency; and transparency towards both institutions and markets. Moreover, any increase in the complexity of the SyRB framework should be carefully weighed against the EU's broader policy objective of regulatory simplification. Even with enhanced granularity, a SyRB remains unable to capture the specific characteristics of individual banks' portfolios or their climate-risk management practices, which can only be adequately addressed through the Pillar 2 framework.

Q5. Do you consider the strengthened provisions on information sharing and the use of harmonized 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.

While we consider the SyRB should be deleted as per considerations in Q6, in case it remains, we believe the application of the SyRB reciprocity should be reviewed. A clear ESRB methodology to apply the reciprocity principle that considers that those 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 should be established. 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.

Q6. 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?

The Systemic Risk Buffer (SyRB), as currently designed and implemented, presents several structural and conceptual limitations and raises questions regarding proportionality and effectiveness.

The SyRB is an instrument of exclusively European nature, creating fragmentation and an uneven playing field.

The existing prudential framework already provides robust and comprehensive mechanisms under Pillar 1 and Pillar 2 to address systemic and emerging risks, including ESG risks. In this context, the SyRB risks becoming redundant and overlapping (with G-SII, O-SII and CCyB buffers), adding complexity to the capital framework without a clear incremental contribution to financial stability.

The revision of these Guidelines is misaligned with the current EU policy agenda focused on regulatory simplification, including the Omnibus simplification package and the forthcoming European Commission report on competitiveness. Rather than simplifying the prudential framework, the revised Guidelines risk adding a further layer of granularity and interpretative uncertainty, particularly in an area—climate risk—where methodologies, data quality and supervisory practices are still under development.