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EBA Consultation on 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

General Comments

We doubt that the timing of this regulatory initiative is appropriate in the current context. The draft Guidelines are being introduced at a moment when the broader European policy debate is focused on simplification, proportionality and competitiveness. In this vein, it would have been preferable to reflect further on whether this initiative is aligned with those wider policy objectives.

The EC is actively working to reduce regulatory complexity and strengthen the competitiveness of the EU financial sector, as also confirmed by the recent consultation on the competitiveness of the EU banking sector. Against that background, amendments to a macroprudential tool that introduce additional layers of sectoral granularity, particularly in relation to climate risk, appear difficult to reconcile with the overall initiative of the legislators.

Extending macroprudential capital buffers to encompass climate risks that are inherently difficult to quantify, often only weakly identifiable, and materialise over very long time horizons risks blurring the line between prudential supervision and political steering. Such an approach would undermine the risk-based nature of capital requirements, distort supervisory judgement and ultimately constrain financing for the real economy. Climate-related risks are already systematically embedded in banks' governance structures and risk management frameworks. If the introduction of a climate-related SyRB were nevertheless considered unavoidable, it would require, at a minimum, a strict, transparent and defensible delineation vis-à-vis existing capital buffers to avoid double counting and regulatory overreach.

Hence, we believe that it would not be appropriate to allocate regulatory and institutional resources to amend the SyRB Guidelines at this time.

We ask the EBA to await the outcome of the ongoing policy discussions on macroprudential reform before proceeding with these guidelines.

Only in case the Guidelines will be amended:

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.

Even though it makes sense to take a more granular approach here in order to clearly and unambiguously define the risk exposures, we question whether this is actually possible, particularly when it comes to physical risks. It is unclear whether it is possible to define systemic risks which have serious negative consequences for the financial system and the real economy in Member States based on the accessible data for geographical areas.

The guidelines shift risk assessment to finer levels such as NACE Level 2 or, at a more granular level, NUTS 3 to LAU, as well as additional combinations of dimensions; institutions must adapt their data models, reporting channels, and controls accordingly. With regard to physical climate risks, the draft calls for a significantly more granular geographic breakdown. This could create additional data collection and classification challenges for credit data, collateral, and counterparties. It is highly questionable if the cost-benefit-analysis will have a positive outcome here.

The guidelines give authorities leeway to use multiple combinations of dimensions; for banks, this can reduce the predictability of supervisory practices.

Finally NCAs should always bear in mind that macroprudential measures have noticeable consequences for the economy which should be carefully considered. If national authorities tailor SyRBs to sectors or regions that are particularly vulnerable to climate risks, this could make financing more expensive or scarce in certain industries or areas.

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 des-ignated authorities may apply a systemic risk buffer?

According to Article 133(1) CRD VI a systemic risk buffer might be imposed in order to prevent macroprudential or systemic risks, including systemic risks arising from climate change, if not already covered by CRR requirements or Articles 130 and 131 CRD. This requirement provides a considerable discretionary leeway for the competent authorities and it is unclear - as mentioned previously - whether it is actually possible to define and classify these risk exposures so unambiguously.

One essential aspect should be clarified in this regard: Systemic risk buffers covering risks arising from climate change should be imposed in **absolutely exceptional cases only**. In this vein, **Recital 43 CRD VI** states that only such climate change risks should be relevant which have the potential to have **serious negative consequences** for the financial system and the real economy in Member States.

This clarification of its use only in very exceptional cases should also be underlined and incorporated in the final EBA Guidelines.