

RESPONSE TO PUBLIC CONSULTATION

Response to the EBA Consultation on amendments to Guidelines EBA/GL/2020/13

Draft Guidelines 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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Introduction

We welcome the EBA's draft Guidelines amending EBA/GL/2020/13. By introducing more granular economic activity classifications, extending the geographical dimension to LAU level, allowing the use of Energy Performance Certificates within the risk profile dimension, and strengthening the provisions on harmonised data sources and information sharing, the proposed amendments materially improve the ability of relevant authorities to address climate-related systemic risk through systemic risk buffers (SyRB). They will significantly enhance the macroprudential framework's capacity for climate risk management.

The proposed amendments, however, rely on dimensions that are by construction static — economic activity, geographical area, type of collateral, and type of counterparty. These dimensions only capture part of how counterparties' transition and physical risk profiles. Climate-related risk exposures are inherently forward-looking: they crucially depend on counterparties' transition plans, properties' renovation pathways and borrowers' adaptation investments. As a result, two counterparties indistinguishable along the static dimensions of the Guidelines can carry materially different climate-related risks. An undifferentiated buffer applied along these dimensions alone treats them equally. This identical treatment runs counter to the buffer's policy objective: it raises the cost of capital uniformly across exposures with differing underlying risk profiles, burdens counterparties most actively reducing system-wide climate risk, and provides no marginal incentive for laggards to adjust. In this configuration, the buffer can act against its own goal of mitigating the build-up of systemic climate risk.

To preserve the macroprudential logic of the buffer while addressing this gap, we propose a single, consistent mechanism running through our responses to Q1, Q2 and Q3: relevant authorities should set the buffer along the static dimensions defined in the Guidelines, and may permit institutions to apply a lower buffer rate to individual exposures within the targeted subset where the institution can demonstrate, on the basis of credible forward-looking evidence, that the underlying

counterparty, property or productive asset faces materially lower climate-related risk. The burden of proof rests with the institution and should ideally be grounded in metrics already disclosed under EU law. Relevant authorities retain full discretion to set the credibility threshold and to verify the evidence. This adjustment ensures that capital requirements reflect risk in its forward-looking dimension, supports rather than penalises transition and adaptation finance, and preserves the buffer's pre-emptive role in mitigating the build-up of systemic risk.

The remainder of this response addresses the six consultation questions in turn. Each question concludes with a concrete drafting proposal for the relevant paragraph of the Guidelines.

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.

We agree that NACE level 2, with the option to go further down to groups and classes for fossil fuel activities, is the appropriate first targeting layer. We do not agree that it is sufficient on its own. As set out in the introduction, transition risk is highly heterogeneous within NACE divisions, and an undifferentiated buffer applied at this level would create unintended consequences for transition financing.

Granularity at NACE level 2 is necessary and appropriate, but heterogeneity within divisions is large.

Targeting the section level (NACE level 1) would force relevant authorities to apply the buffer to entire macro-sectors covering activities with very different risk profiles, or to depart from the Guidelines. Moving to the division level (NACE level 2), with the option of going further down to groups and classes for fossil fuel activities, materially improves risk sensitivity. NACE level 2 is therefore the right anchor.

It is, however, only an anchor. Division 29 (Manufacture of motor vehicles, trailers and semi-trailers) illustrates the point. Under tightening EU CO₂ fleet standards for new cars and vans, two manufacturers with comparable current internal combustion engine production can face very different transition trajectories: one with a credible, capex-backed plan to shift its production mix toward electric vehicles over the next decade, the other without. Both sit in the same NACE division — and indeed in the same NACE class 29.10 — and neither is a fossil fuel activity. They are indistinguishable at every level of the NACE hierarchy, yet their transition risk profiles diverge sharply: the former faces significantly lower transition risks than the latter. A targeting framework based exclusively on the activity code is structurally unable to distinguish between exposures that build up systemic transition risk and those that mitigate it.

Proposed safeguard: a counterparty-level adjustment based on credible forward-looking metrics.

In line with the mechanism set out in the introduction, we propose that the Guidelines allow relevant authorities to set the SyRB at NACE level 2 while permitting the application of a lower rate to individual counterparties where the institution can demonstrate, on the basis of credible forward-looking evidence, that the counterparty is best-in-class within its NACE division and is undertaking investments that will materially reduce its transition risk. The demonstration should rely on verifiable forward-looking metrics — such as the counterparty’s transition plan as defined in Articles 19a and 29a of Directive 2013/34/EU — that the institution provides when requesting a lower buffer rate. Reliance on metrics provided by institutions avoids new general mandatory regulatory reporting burdens. Guidance from authorities on what constitutes credible forward-looking metrics would ensure a degree of standardisation and a level playing field, and limit ad-hoc institution-level judgement. The burden of proof rests with the institution, and relevant authorities retain full discretion to set the credibility threshold and to verify the evidence provided.

Suggested addition under the ‘risk profile’ subdimension (paragraph 28):

“Where the SyRB targets exposures subject to climate transition risk on the basis of the ‘economic activity’ subdimension, relevant authorities may permit institutions to apply a lower buffer rate to individual counterparties within the targeted subset where the institution demonstrates, on the basis of credible forward-looking evidence, that the counterparty is best-in-class within its NACE division and is undertaking investments that materially reduce its transition risk.”

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.

Yes. We support the introduction of an EPC-based subdimension within the ‘risk profile’ dimension for real estate exposures. EPC bands are a meaningful differentiator of mortgage transition risk and align directly with the EU policy framework for the building stock. The energy performance of a building is increasingly material to the underlying mortgage's credit risk, and capturing this dimension in the design of a SyRB is conceptually sound.

Consistent with the framing set out in the introduction, the EPC band identifies a property’s energy performance today, not its trajectory. Two properties in the same low EPC band can face very different transition risk depending on whether their owners have committed to a credible renovation pathway. The subdimension should therefore not be limited to the static EPC band: it should also accommodate the institution-led demonstration described in the introduction, allowing a lower buffer rate where the institution can demonstrate that the property is on a renovation trajectory that materially reduces its transition risk relative to its current EPC band. The burden of proof rests with the institution; relevant authorities retain discretion to set the credibility threshold, to determine which forward-looking metrics are appropriate in their jurisdiction, and to verify the evidence provided.

Suggested addition under the ‘risk profile’ subdimension (paragraph 28):

“For exposures secured by residential or commercial immovable property, the ‘risk profile’ subdimension should include the energy performance of the property, as captured by the Energy Performance Certificate (EPC) issued in accordance with Directive (EU) 2024/1275, or by an equivalent measure of energy consumption. Where the SyRB targets such exposures on the basis of the EPC subdimension, relevant authorities may permit institutions to apply a lower buffer rate to individual exposures within the targeted subset where the institution demonstrates, on the basis of credible forward-looking evidence, that the property is on a renovation trajectory that materially reduces its transition risk relative to its current EPC band.”

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.

We support the extension of the geographical dimension to LAU level. NUTS 3 is too coarse to capture the localised nature of physical hazards in many parts of the EU, particularly in less densely populated countries, and LAU provides a materially better approximation of the spatial scale at which floods, wildfires and other climate hazards crystallise.

Two further points deserve attention for the geographical dimension to deliver its intended targeting function: the geographical attribution of corporate exposures, and the recognition of borrower-level adaptation investments.

Geographical attribution of corporate exposures should reflect the location of the productive asset.

For physical risk targeting, the geographical attribution of an exposure should reflect the location of the borrower’s productive assets, rather than only its registered office or headquarters. A multi-site corporate borrower with its registered office in a low-hazard region but with productive plants in a flood-prone river basin or wildfire-prone area carries physical risk that the registered-office location does not capture. The same point applies in reverse to firms whose registered office is in a high-hazard area but whose productive assets are located elsewhere.

The new paragraph 24.b could, in principle, be read as introducing the asset-location principle. However, the structuring of the text — a general residence-of-the-debtor rule in paragraph 12(c), with paragraph 24.b carved out for specialised lending — is more naturally read as confining the asset-location principle to specialised lending. To remove ambiguity and ensure consistent application across Member States and reciprocating authorities, the Guidelines should make explicit that, when designing a SyRB measure to address physical risk, relevant authorities may attribute the geographical area of any corporate exposure to the location of the productive assets supporting that exposure.

Recognition of adaptation investments at the counterparty level.

Consistent with the mechanism set out in the introduction, the same forward-looking logic that applies to transition risk applies to physical risk, with one substitution: the relevant counterparty-level information concerns adaptation rather than transition. Two properties or productive assets in the same LAU can face very different residual physical risks depending on whether their owners have invested in adaptation measures — flood defences, stormwater management, fire-resistant construction, climate-resilient retrofits, business-continuity arrangements, or the relocation of critical operations. We therefore propose that the institution-led demonstration described in the introduction be available for physical risk: relevant authorities may permit institutions to apply a lower buffer rate to individual exposures within the targeted geographical subset where the institution demonstrates, on the basis of credible forward-looking evidence, that the borrower has implemented or committed to adaptation measures that materially reduce the physical risk of the exposure.

Suggested addition to paragraph 24.b (geographical attribution):

“For the purposes of designing a SyRB measure addressing physical risk, the relevant authority may also determine the geographical area of a corporate exposure on the basis of the location of the productive assets supporting that exposure, where such information is available.”

Suggested addition under the ‘risk profile’ subdimension (paragraph 28):

“Where the SyRB targets exposures subject to climate physical risk on the basis of the ‘geographical area’ subdimension, relevant authorities may permit institutions to apply a lower buffer rate to individual exposures within the targeted subset where the institution demonstrates, on the basis of credible forward-looking evidence, that the borrower has implemented or committed to adaptation measures that materially reduce the physical risk of the exposure.”

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?

We support the flexibility to combine several dimensions when defining a subset of sectoral exposures for a SyRB. This flexibility allows relevant authorities to target the source of the identified systemic risk precisely, minimising undesirable effects on other exposures. To preserve transparency and comparability across jurisdictions, the values that each dimension may take could be clearly specified by the EBA in the Guidelines, ensuring harmonisation across Member States.

As set out in the introduction, the combination of static dimensions — economic activity, geographic area, type of collateral, type of counterparty, risk profile — is necessary but not sufficient on its own to capture climate-related risk. The flexibility welcomed under this question should therefore be complemented by the counterparty-level forward-looking adjustments proposed in our

responses to Q1, Q2 and Q3, which allow institutions to demonstrate that individual exposures within the targeted subset face materially lower transition or physical risk, based on credible forward-looking evidence.

Suggested clarification (paragraph 12):

“Where a SyRB measure targets exposures subject to climate-related risks, the combination of static dimensions referred to in this paragraph may be complemented by the counterparty-level adjustments provided for under the ‘risk profile’ subdimension, allowing institutions to demonstrate that individual exposures within the targeted subset face materially lower transition or physical risk on the basis of credible forward-looking evidence.”

Q5.

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.

We welcome the strengthened provisions on information sharing and the use of harmonised data sources. The use of harmonised data sources facilitates the reciprocation of SyRB measures across Member States, and we support the EBA's proposal that relevant authorities rely primarily on such sources, with any use of non-harmonised data duly justified. We recognise that some Member States' particularities may require local data, and the proposed architecture adequately accommodates this.

Yet, these amendments using harmonised data sources might not always be possible for the counterparty-level forward-looking adjustments proposed in our responses to Q1, Q2 and Q3. In our proposition, these adjustments rely on institutions' demonstrations that an individual counterparty merits a lower buffer rate; data sources underpinning these demonstrations might differ across jurisdictions.

However, two authorities reviewing the same demonstration should reach the same conclusions, ensuring consistent treatment of cross-border exposures and eliminating scope for measurement arbitrage. We propose that the ESRB issue recommendations on the indicators and credibility criteria that relevant authorities should apply when assessing institutions' demonstrations for the forward-looking adjustments proposed in our responses to Q1, Q2 and Q3. This would establish a shared analytical baseline across Member States, while preserving authorities' discretion to account for local specificities, and would support consistent reciprocation of SyRB measures that incorporate forward-looking adjustments.

Suggested new paragraph in Section 7.2:

“Where a SyRB measure incorporates counterparty-level adjustments based on credible forward-looking evidence under the ‘risk profile’ subdimension, the EBA invites the ESRB to issue, in line with its mandate, recommendations on the indicators and credibility criteria that relevant authorities should apply when assessing such demonstrations, with a view to establishing a shared analytical baseline supporting consistent reciprocation across Member States.”

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?

We welcome the proposed amendments and consider that they materially improve the Guidelines for the targeting of climate-related systemic risk. One additional point, not specifically addressed in Q1-Q5, deserves attention to ensure that the amended Guidelines achieve their intended financial stability objective.

Calibration should be adaptive and reviewed dynamically.

Climate risk evolves over time: hazard intensity and frequency change with warming, transition policy paths shift, counterparties' alignment with the EU climate trajectory develops, and the body of supervisory evidence and methodology continues to mature. A fixed calibration of a climate-related SyRB risks becoming progressively misaligned with the underlying risk it is meant to address — either over-calibrated as adaptation and transition advance, or under-calibrated as physical hazards intensify or transition shocks materialise.

We propose that the Guidelines explicitly recognise the adaptive nature of climate-related SyRB calibration. Relevant authorities should be expected to review the calibration of climate-related measures, including the size of the targeted subset and the buffer rate applied, on a regular basis and as the underlying evidence and methodology develop

Suggested new paragraph in Section 7:

“For SyRB measures addressing climate-related systemic risk, relevant authorities should review periodically the calibration of the measure, including the perimeter of the targeted subset and the applicable buffer rate, in light of the evolution of the underlying risk and the development of supervisory evidence and methodology. The frequency of the review should be proportionate to the rate at which the relevant risk drivers, climate policies and counterparty trajectories evolve.”