

# Banking Stakeholder Group's response to Consultation on common procedures and methodologies for the supervisory review and evaluation process (SREP) and supervisory stress testing under Directive 2013/36/EU

## Introduction

The Banking Stakeholder Group (BSG) welcomes the opportunity to express its views on the consultation on common procedures and methodologies for the supervisory review and evaluation process (SREP) and supervisory stress testing under Directive 2013/36/EU.

The following considerations are grounded in the view that the SREP and supervisory stress testing should aim to preserve both the resilience of supervised institutions and the stability of the financial system, promote consistent supervisory practices across authorities, and support the effective and efficient application of the SREP and supervisory stress testing framework. Against this background, our contribution provides selected constructive feedback and proposals. We highlight the importance of enhancing clarity and transparency in supervisory expectations while preserving the flexibility and supervisory judgement necessary to address institution-specific risks and evolving risk profiles.

We are grateful for the opportunity to contribute and remain available to provide any additional information.

## General

### **Q1. Views on the overall amendments and clarifications made to the revised guidelines (across Titles 2–12)**

The BSG welcomes the general approach of the EBA, which aims at improving the effectiveness of the SREP process and reducing the burden on institutions without diluting prudential requirements, in line with the policy priorities formulated by the Commission and the co-legislators. The BSG is mindful of the potential tension between the principle of proportionality, which implies a degree of supervisory discretion to account for differences in size, complexity and risk profile, and the objective of supervisory convergence, which favours standardisation and transparency in the implementation of the SREP framework. While the BSG appreciates the alignment and clarity of expectations towards supervised entities and agrees that the resilience of supervised entities and consistency of supervisor practices are the paramount objectives of the SREP, some BSG members consider that a more focused and streamlined application of the operational requirements set out in the Guidelines, in addition to the shortening of the Guidelines, could bring along further benefits in the form of greater operational efficiency for institutions, without affecting the substance of supervisory expectations. Such efficiency gains could allow banks to reallocate resources more effectively, while continuing to meet supervisory requirements in full.

### **Q2. Views on the integration of ESG risks and factors across the existing SREP elements in the revised guidelines**

The BSG acknowledges the integration of ESG risks into the SREP process and welcomes the proposed phased approach for social and governance risks, as outlined in paragraph 42. It recognises that environmental risks, including climate- and nature-related risks, already represent a tangible and growing source of financial risk and that undue delays in their integration should be avoided in order to prevent unanticipated shocks to the financial system. The EBA already advocates a gradual approach, starting with climate risks. It is essential for authorities to develop their assessment capabilities now to avoid a sudden and disorderly catch-up in the future. At the same time, some members of the BSG highlight the current lack of maturity of methodologies and data, also in light of recent regulatory measures aimed at streamlining sustainability-related requirements. Consequently, these BSG members consider that a progressive implementation should also be extended to environmental and nature-related risks and propose the following reformulation of paragraph 42:

*This approach enables competent authorities to assess the prudential impact of ESG risks within the established SREP framework, including in the assessment of the business model, the assessment of internal governance and institution's wide controls and risks to capital, liquidity and funding. At the same time, the guidelines acknowledge that competent authorities may adopt a gradual approach to the assessment of ESG risks, initially prioritizing environmental risks, recognizing the greater capacity to quantify climate-related risks compared to other types of environmental risks, while progressively enhancing supervisory practices as data availability,*

*methodologies and analytical tools evolve, including to the assessment of social and governance risk.*

Other members of the BSG do not support this proposal noting that the impact of climate-related and other environmental risks is already well in evidence and should form part of supervisors' assessment of institutions' resilience and readiness to adjust to the challenges posed by rising ESG risks.

## Title 2: SREP framework

### **Q3. Views on the enhanced simplification and proportionality aspects**

The BSG welcomes the EBA's increased emphasis on simplification and on the application of the proportionality principle within the supervisory process and acknowledges its importance, as reflected in the draft Guidelines. At the same time, some BSG members argue that the draft Guidelines provide limited guidance on how this principle should be applied in practice beyond a reduced frequency of assessments. In particular, although paragraph 2.4 clarifies that proportionality should also apply to the level of detail and the scope of supervisory assessments, this approach is only partially reflected in the remainder of the Guidelines, where proportionality is mentioned only briefly and without concrete proposals for its operationalisation. In this context, the same BSG members consider that further clarification would be helpful on how proportionality may also affect the level of detail and the scope of assessments, taking into account an institution's size, complexity and the materiality of the specific risks assessed, in order to ensure that the supervisory burden is appropriately adjusted and applied consistently across competent authorities. Other members of the BSG highlight that the decision to provide such clarification, as well as their scope and content, should be at the discretion of the NCA and must not constrain the necessary supervisory judgement and flexibility, allowing authorities to adapt the intensity of supervision to evolving risks and to institutions with more complex risk profiles or activities with potential systemic externalities.

With regard to transparency, some members of the BSG note that greater clarity for institutions on their categorisation under the SREP framework and on the general criteria used for peer benchmarking could support consistency, predictability and supervisory convergence, as also highlighted in the EBA Peer Review Committee Report on the application of proportionality in SREP (EBA/REP/2025/02). These members argue that enhanced transparency towards institutions may be beneficial, without requiring the disclosure of internal supervisory methodologies or constraining competent authorities' discretion and ability to react dynamically to emerging risks. The BSG fully acknowledges, however, that categorization and peer selection fall under supervisory judgment and must preserve the necessary discretion for authorities to adapt the intensity of supervision to evolving risks.

Finally, some BSG members consider that additional clarification on certain operational aspects would further support the effective and proportionate application of the Guidelines, including with

regard to the definition of a “poor SREP score”, the threshold for determining a material change in an institution’s risk profile, and the conditions under which previous assessments may be relied upon for Category 1 institutions.

In conclusion, while transparency in objectives and high-level principles is crucial, supervisory judgement must remain central.

#### **Q4. Views on the introduction of a high-level escalation framework**

The BSG welcomes the introduction of a high-level escalation framework for supervisory actions. In this context, it recognises the importance of maintaining flexibility in the application of supervisory measures, in order to allow competent authorities to react in a timely and targeted manner based on the severity of deficiencies and evolving risks. At the same time, the BSG notes that the actions listed in paragraph 21 do not clearly constitute an escalation ladder, as they are not intended to be strictly sequential and no criteria are provided for moving from one action to the next. Similarly, while paragraph 20 sets out the general principle that supervised institutions must act efficiently and effectively to address the deficiencies identified in the SREP process, the considerations set out in paragraph 22 remain largely qualitative and provide limited guidance on how escalation should progress in practice.

In this context, the BSG considers that the formalisation of the escalation framework could be further improved by providing clearer indications on how escalation may be applied, for example through illustrative examples and, where feasible, references to quantitative considerations, in order to support a more consistent understanding and application across competent authorities.

The BSG also observes that paragraph 22 does not explicitly indicate whether supervisory or ECB priorities are a factor in selecting the appropriate measure, despite practical experience showing that escalation has, in some cases, progressed more rapidly where deficiencies were aligned with supervisory priorities, for instance in the context of ESG risks. At the same time, the BSG recognizes that aligning supervisory measures with macroprudential priorities (such as climate or cyber risks) is essential for ensuring financial stability and depositor protection. ECB priorities reflect a systemic analysis of risks and should therefore legitimately guide supervisors' actions.

Finally, the BSG considers that further clarification would be helpful as to whether and to what extent the proposed escalation framework also applies outside the SREP context, including situations where escalation on a specific topic may occur without being explicitly linked to SREP requirements, in order to ensure overall coherence of the supervisory framework.

Overall, further clarification on the practical application of the escalation framework could support a more consistent and predictable supervisory approach, while preserving the necessary flexibility and supervisory judgement to ensure that escalation remains effective, proportionate and responsive to the severity of deficiencies and evolving risks. At the same time, the BSG appreciates that a degree of flexibility must be maintained for NCAs to apply escalation measures selectively and decide on their appropriateness on a case-by-case basis.

## Title 3: Monitoring of key indicators

### **Q5. Appropriateness of coverage and level of detail for the intended purpose**

The BSG notes that this section broadly builds on the 2022 Guidelines, while expanding the set of indicators in paragraph 54a to include internal governance and controls, business model analysis, risk of excessive leverage and references to newer regulation. This broader coverage is welcomed, as it reflects the evolving supervisory focus beyond core prudential indicators. That said, the BSG considers that further clarification of the criteria for what constitutes a “material change” and an “anomaly” would support consistency and help maintain a level playing field across competent authorities. Since these concepts were already present in the previous version of the Guidelines, more explicit references could reduce uncertainty in their practical interpretation.

With regard to monitoring systems, the BSG recognises the rationale for additional guidance, including illustrative indicators by category of institution. Some members caution against an overly prescriptive or uniform approach. Fixed thresholds or exhaustive lists of indicators may create a false sense of security, limit supervisory discretion to adapt their monitoring to fast-evolving markets and practices, fail to capture institution-specific characteristics and reduce the ability to identify emerging or idiosyncratic risks. Other members welcome the EBA’s initiative to further harmonise supervisory practice based on a common body of indicators. They note that minimum thresholds are a proven way of achieving consistent supervisory outcomes across jurisdictions.

Overall, the BSG supports an approach that balances clarity and consistency with flexibility, by combining high-level guidance and illustrative examples with indicators and thresholds, as appropriate, in order to ensure effective and proportionate monitoring.

## Title 4: Business model analysis

### **Q6. Appropriateness of coverage and level of detail for the intended purpose**

The BSG notes that NCAs are already obliged to calibrate Pillar 2 Requirements (P2R) to cover risks that are not included at all or underestimated under Pillar 1 by virtue of Art. 104a(2) CRD6. As a general comment, the BSG acknowledge the importance of ensuring that this review of the SREP Guidelines should not result in a dilution of the prudential requirements set out in Level 1 legislation, which comprise the P2R. In line with the Basel III framework, supervisory judgment and Pillar 2 prudential measures are meant, in particular, to address non-financial risks such as strategic risk, business model risk and reputational risk.

Some members of the BSG are of the view that the current guidelines allow for the capitalisation of risks that are articulated too broadly i.e. business model and governance. This may lead to a potential overlap between P2R and Pillar 1 requirements, if such assessments are translated into

P2R add-ons without a clear link to risks not already captured under Pillar 1. They suggest to remove this potential overlap by ensuring that assessments of business model and governance are translated into P2R measures only where they give rise to clearly identifiable prudential risks, supported by more detailed guidance clarifying the conditions under which such assessments should result in P2R measures. They are of the view that this will ensure that P2R add-ons are applied in a consistent, risk-based and proportionate manner, thus strengthening banks' ability to address residual risks. Other BSG members consider that the assessment of business model and governance risk is an integral part of the calibration of P2R in accordance with the Basel III framework. Pillar 1 is standardized and cannot capture the unique sustainability challenges or control weaknesses of individual banks. Without the ability to reflect these idiosyncratic risks in P2R, these BSG members believe that the capital framework would fail to address key sources of potential failure, leaving investors and depositors exposed to institution-specific vulnerabilities that could precipitate or amplify a crisis.

## Title 5: Assessing internal governance

### **Q7. Views on the updated section 5.7 “ICT systems, risk data aggregation and risk reporting**

n.a.

## Title 6.2: Assessment of credit and counterparty risk

### **Q8.Appropriateness of coverage and level of detail for the intended purpose**

The BSG views Title 6.2 on credit and counterparty risk as appropriate, with sufficient clarity on the interpretation of the requirements.

## Title 6.3: Assessment of market risk

### **Q9. Views on the proposed treatment of transfer pricing risk in trading book activities**

The EBA proposes introducing a new market risk charge for exposures arising from transfer pricing arrangements. The BSG acknowledges that the primary objective of prudential regulation is to ensure that all material risks are adequately capitalised, whether these arise from the actual holding of positions or from equivalent economic exposures. It is also recognised that transfer pricing arrangements may, in certain cases, underestimate the true extent of the risk borne by an EU entity, making that risk less transparent. From a stability standpoint, the EBA's proposal is a necessary evolution to close a regulatory gap that could otherwise leave the financial system

exposed. It is equally important to recognise that transfer pricing arrangements serve as an effective mechanism for managing global trading books across affiliated entities, especially where operations span multiple time zones. Global trading books also strengthen integrated capital markets, mitigating regional fragmentation and reducing the impact of market shocks it is therefore important that this new adjustment does not inadvertently discourage the operation of global trading books and that potential unintended consequences, if any, are identified

Some BSG members are of the views that the EBA may want to consider the following high level principles:

- The guiding principle should be Transfer Pricing (“TP”) method-agnostic. They argue that the EBA’s proposal should focus on whether the EU entity bears any residual market risk that is not already covered, irrespective of the TP method. They would expect the emphasis to be on assessing the underlying characteristics of the arrangement and risk allocation, rather than conferring substance via nomenclature.
- They also suggest that adjustments should not go above the actual risk not covered in the EU entity: loss crystallisation and clawback mechanics needs to reflect the actual risk borne by the EU entity - adjustments for EU capital should be made only to the extent that losses crystallise in the EU entity. Where clawbacks are in place such that losses are borne and subsequently recouped by the capital-providing entity, there is no real capital risk at the EU level, and any add-on should therefore be aligned to that underlying risk. In practice, many market players allocate a c.15% return to capital to the market facing entity to recognise that it bears the initial risk of losses. In many cases losses may be held by the (e.g. non EU)\_capital-providing entity and clawed back through future profits; the framework should clarify how such terms interact with the proposed requirement. Equally, they consider that the framework doesn’t make clear how reverse arrangements would be treated (e.g. where an EU entity shares risk with a non-EU entity via transfer pricing). Following the proposed logic, they conclude that this could result in a reduction of EU capital requirements.
- Regarding the interaction with existing advance pricing agreements (“APAs”), these BSG members observe that credit institutions will often agree their transfer pricing with governments via APAs. These APAs are negotiated between governments based on clear expectations about where capital and risk reside. Changing the ground rules has the potential to impact those agreements, which could have commercially significant consequences for these institutions.

Against this backdrop, the same BSG members offer further observations:

#### 1. Relationship Between Pillar 1 Market Risk and Transfer Pricing

Pillar 1 market risk charges do not necessarily correlate with transfer pricing P&L allocations. Transfer pricing models vary significantly in their design and application. It is important that the proposed approach remains guidance as stated in the Draft Cost-Benefit Analysis (page 195) that the “proposed risk measurement approach is not mandatory and that competent authorities can

apply equally robust, alternative methodologies.” This flexibility is essential to ensure that any pillar 2 requirements reflects only the portion of the risk that is not already captured – or not sufficiently captured- under Pillar 1 for the EU entity, and that Competent Authorities can take into account the diversity of the transfer pricing arrangements across firms. The EBA may want to reiterate this principle in the main body of the SREP guidelines for clarity. The EBA should note the potential administrative implications and practical feasibility of requiring firms to perform a comprehensive, group-wide market risk calculation, particularly given potential differences in systems, data availability, and regulatory requirements across jurisdictions.

At the same time, other BSG members note, however, that mandatory floor ensures a baseline of risk capture and prevents banks from shopping for the most lenient interpretation, thereby protecting investor capital from hidden, undercapitalized risks. The fact that some entities may be unregulated is precisely the core problem the rule aims to address. Depositors in an EU bank cannot be protected by hoping a third-country entity, if located in a country which is not in the EC list of third-countries with supervisory and regulatory equivalence, holds adequate capital under an unknown regime. The administrative burden for banks to calculate a global risk view is a secondary concern as it is a regular cost of doing business that increases necessarily in line with the level of complexity of the institution’s business model. The primary cost to be avoided is the systemic cost of a crisis stemming from uncaptured risks. Protecting depositor funds justifies this operational requirement.

## 2. Scalar

The BSG recognises the role of scalar to account for uncertainty particularly in the case where the foreign entity has a different market risk framework. However, the same BSG members suggest that the EBA may want to consider giving the flexibility to reduce the scalar in the case when the EU entity is able to demonstrate, to the satisfaction of the competent authority, that the scalar would overstate the portion of the market risk borne by the EU entity

## 3. Need for Practical Examples

Given the complexity and novelty of this topic, the EBA should provide stylised examples illustrating P2R adjustments in the EU entity (and the interaction with Pillar 1 and the P&L before and after TP allocation in the non-EU and EU entity) under various scenarios, such as:

- EU head group with a non-EU entity
- Third-country group with an EU entity
- Non-EU entity subject to an equivalent Pillar 1 framework or not

Providing such examples could clarify how the rules are intended to operate and help identify potential risks of double counting—for instance, where a non-EU entity booking the underlying positions already holds market risk capital under its home jurisdiction. This additional clarity could enable market participants to offer more comprehensive feedback and highlight potential problem

areas. This could benefit future regulatory changes where novel changes similar to this one are considered.

The concern about double counting is valid and should be technically addressed. However, the greater risk is under-counting. The framework must prioritize ensuring risks are capitalized somewhere in the group to a prudential standard. Clarity on avoiding double counting should not undermine the primary objective.

Although not directly related to the SREP guidelines' content, some BSG members note that the guidelines clearly distinguish credit institutions and Class 1 firms from other investment firms subject to IFR/D (i.e. Class 2 and Class 3 firms), which follow their own SREP guidelines (GL/2022/09). These BSG members invite the EBA to review, at a time that it deems more appropriate, the scope of other related prudential framework – for example the scope of BRRD- to ensure consistency across the broader prudential and SREP framework.

#### **Q10. Views on the integration of the EBA GL on ICT risk assessment (EBA/GL/2017/05) and DORA aspects**

n.a

#### **Q11. Views on the introduction of operational resilience (section 6.4.5)**

n.a.

### **Title 6.5: Assessment of IRRBB and CSRBB**

#### **Q12. Views on the new section on CSRBB and the combined score for IRRBB and CSRBB**

With regard to IRRBB, some BSG members consider that the Guidelines should acknowledge that this risk is often managed at group level and that the consolidated position could represent the main reference point for the supervisory assessment. In this context, where a legal entity appears as an outlier based on solo-level indicators, but the risk is properly managed at group level and the SOT thresholds are met on a consolidated basis, this should be appropriately reflected in the determination of the IRRBB score.

At the same time, the BSG recognises that an assessment at the individual entity level remains essential to identify vulnerabilities specific to certain entities, particularly in cross-border groups where capital or liquidity transfers may be impeded

In this context, while the progressive integration of CSRB into the SREP is appropriate, its assessment should be phased and proportionate, taking into account the current level of methodological maturity.

## Title 7: SREP capital assessment

### **Q13. Views on the interaction between Pillar 1 and Pillar 2 requirements and the approach for cases where an institution becomes bound by the output floor**

The BSG welcomes the EBA's initiative to provide further guidance to NCAs on addressing the interaction between Pillar 1 and Pillar 2 requirements as a result of the introduction of the output floor.

Some members of the BSG consider that, whereas the interaction of the output floor with Pillar 2 requirement must preserve its objective of robustness of the prudential framework and provide a credible safeguard against excessive variability in model-based risk-weighted assets, it is important to avoid unintended double counting of risks arising from the output floor application. Such double counting may lead to risk-insensitive capital constraints and, in turn, unduly restrict the flow of credit to households and non-financial corporates, with adverse effects on investment and economic activity in the real economy.

Against this backdrop, the same members would like to express the following comments regarding the interaction between P1R and P2R:

- They reiterate the importance of adopting a holistic approach of the capital requirements of an institution, considering Pillar 1 and Pillar 2 requirements as a whole and to find a balance between the P1R and the P2R, consistent with the general considerations of the article 297.
- They note that for banks using internal models, the output floor adds a layer to Pillar 1, without necessarily reflecting a deterioration in the institution's idiosyncratic risk profile but rather ensuring a more prudent and comparable representation of the bank's risk profile. According to the regulatory and supervisory framework, all internal models used by banks are approved by the ECB, complying with standards described in the ECB guidelines<sup>1</sup>. They have undergone the ECB "TRIM" exercise over the last years, that led to additional capital requirements in Pillar 1. In addition, they are submitted to back-testing every year. Still, the output floor aims at addressing residual uncertainty and unwarranted variability arising from the use of internal models by introducing a standardised backstop in Pillar 1.
- P2R, by contrast, reflects institution-specific risks - not already covered by P1 - identified through the SREP, including weaknesses in governance and internal controls, concentration risks, model-related risks, as well as risks arising from the business model.

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<sup>1</sup> [https://www.banksupervision.europa.eu/ecb/pub/pdf/ssm.supervisory\\_guide202507.en.pdf](https://www.banksupervision.europa.eu/ecb/pub/pdf/ssm.supervisory_guide202507.en.pdf)

- These BSG members are of the views that a degree of overlap may exist between the two measures, namely on model risk. Where such overlap is identified on a case-by-case basis, they suggest that it could be duly reflected in the calibration of P2R as part of a careful supervisory assessment aimed at avoiding double counting and, all else being equal, could inform a reassessment of P2R when the output floor becomes binding.
- However, at the same time, to ensure a consistent application of the principles set out in Article 296, these BSG members consider it is important to assess whether the application of the output floor may already cover, at least in part, risks that are also reflected in P2R, such as the potential underestimation of credit risk due to modelling uncertainty, the more conservative capture of tail risk embedded in standardised RWAs, or other Pillar 1 risks whose measurement is strengthened by the output floor, that might be related to the business model of each institution. This assessment could support a proportionate calibration of P2R, while preserving its role in addressing residual, institution-specific risks.
- They suggest that this review could also consider mechanical effects from higher floor-driven or unfloored RWAs under CRR3 and be accompanied by clear communication on how P2R is rebased over the phase-in period. Whenever Pillar 1 changes have a material impact on an institution's capital profile, competent authorities - in the exercise of their supervisory judgement - could systematically reassess and, where needed, re-determine the size and composition of P2R to ensure it continues to cover only risks not covered, or not sufficiently covered, by P1R, while preserving a robust and forward-looking capital buffer against residual vulnerabilities.
- They welcome that the supervisors will communicate on material risk drivers in P2R (§451) and suggest that it would be particularly helpful to get a breakdown of P2R by main risk blocks before and after the relevant P1R change. More generally, they note that clearer communication of how P2R is calibrated in light of changes to P1R and the output floor – together with a breakdown of P2R and P2G by key risk drivers – would improve transparency, predictability to institutions to undertake relevant remediations, and help ensure that Pillar 2 remains genuinely complementary to Pillar 1 and macro-prudential tools. More generally, Pillar 1 and Pillar 2 should be considered altogether to ensure that risks already covered by the prudential backstop for NPLs or by macro-prudential buffers (e.g., CCyB, SyRB) are not effectively charged again through SREP scores and Pillar 2 add-ons.
- Finally, these BSG members suggest that rebasing of P2R could go longer than the first time the institution becomes bound to the output floor, as the effect of the latter might be increasing over the phasing period. Indeed, the following phasing will apply to the output floor: 55% in 2026, 60% in 2027; 65% in 2028, 70% in 2029, and 72,5% in 2030. It means that, for an institution that becomes bound to the output floor as soon as 2026, it might have an incremental impact of the output floor, each year from 2026 to 2030, which should lead to an annual rebasing of the P2R. At least, it should be done until the end of the phasing of the output floor in 2030. Beyond 2030, it becomes a matter of normal day-to-day supervision to adjust

P2R for any newly discovered risks, and a matter of IRB model reviews by National Competent Authorities to track deficiencies in modelling not already taken in P1R.

In addition to the considerations set above, these members of the BSG would like to provide some comments on the P2G:

- They are aware that P2G and macro-prudential buffers such as CCyB have distinct objectives: one is microprudential and linked to the individual risk profile, the other is macroprudential and responds to aggregate credit cycles. A systematic offset would weaken one or the other of these objectives.
- However, these BSG members see a need to better align P2G with macro-prudential buffers, particularly the CCyB. The CCyB is designed to be built up in periods of excess credit growth and released in downturns, as recalled by the Basel Committee in its November 2024 paper on positive neutral CCyB. Supervisory stress scenarios such as the EBA 2025 exercise, which aim at providing a European systemic benchmark and is assessed through the SREP process in addition to internal stress tests carried out by institutions, broadly correspond to conditions in which macroprudential buffers such as the CCyB may be expected to be released.
- They believe that a more systematic and transparent consideration of releasable CCyB in the calibration of P2G would help avoid structural overlap between capital required in stress (P2G) and buffers that would, in practice, be released in those circumstances (paragraph 357(b)), while still recognizing the distinct roles of micro- and macro-prudential tools.

These BSG members are also of the view that the calibration of the P2G should take into account not only the anticipated maximum stress impact, as specified in article 351, but should also rely on the starting point of the solvency situation of an institution; all else being equal, an institution starting from a high level of solvency ratio would have more financial strength to absorb a severe shock, compared to an institution which is already closer to its capital requirement.

The same BSG members consider that a similar “no overlap” approach should apply to the interaction between P2R and MREL (paragraph 339) and between P2R and P2G / P2G-LR (paragraph 345) and could be supported by further guidance on P2R components and basic calibration principles, given the differences in practice highlighted in the EBA’s 2023 convergence report.

Given the prominence the draft SREP Guidelines assign to Overall Recovery Capacity (ORC) and Recovery Plan (RP) governance, could the EBA clarify whether SREP letters will consistently include an explicit assessment of the RP/ORC (e.g., conclusions and key findings) and, if so, how this assessment will be reflected in the scoring elements (capital adequacy; liquidity & funding adequacy) and/or in P2G?

Other BSG members conversely, would like to highlight the following :

On Holistic Review of P2R When the Output Floor Binds:

The argument that a binding output floor should trigger a comprehensive review and reduction of P2R—extending beyond model deficiencies to include "unexpected losses above P1R"—fundamentally misconstrues the purpose of the two pillars and risks creating capital inadequacy.

Pillar 1 (including the output floor) addresses quantifiable, comparable risks and provides a standardized, comparable backstop. The output floor ensures a minimum level of conservatism and comparability across banks, but it is not designed to capture the full spectrum of idiosyncratic, institution-specific risks.

Pillar 2 (P2R) exists precisely to cover risks "not covered, or not sufficiently covered, by Pillar 1." This includes weaknesses in internal governance, control failures, concentration risks, and the unique facets of a bank's business model. Automatically assuming that a higher Pillar 1 requirement "mitigates" these idiosyncratic Pillar 2 risks is a dangerous logical leap. A bank's poor governance or risky concentration does not become less dangerous because its modelled RWAs are floored. Systematically reducing P2R in this context would leave these specific vulnerabilities undercapitalized, directly threatening the bank's safety and soundness to the detriment of its depositors.

#### On Systematic Offset Between P2G and the Countercyclical Buffer (CCyB):

The call for a "more systematic and transparent offset" of the CCyB in the calibration of Pillar 2 Guidance (P2G) conflates two tools with critically distinct purposes and would dangerously weaken the capital buffer available in a stress scenario.

P2G is a micro-prudential, forward-looking capital expectation derived from a bank's ability to withstand a severe supervisory stress test. It is designed to ensure the bank remains viable and can continue to operate through a stressed period, protecting depositors and preventing disorderly failure.

The CCyB is a macro-prudential, cyclical tool meant to be released during a system-wide downturn to encourage lending and absorb system-wide losses. Its release is a policy decision taken in the crisis.

Offsetting them ex-ante means effectively removing the CCyB from the capital stack available to meet the P2G stress scenario. This would lower the de facto capital requirement for weathering that very stress. It presupposes the buffer will be released, but supervisors must ensure banks are resilient before the crisis hits and release decisions are made. Baking in this offset structurally would leave the system with less loss-absorbing capacity at the point of maximum tension, jeopardizing financial stability and depositor confidence for the sake of capital "efficiency."

#### On Transparency and Breakdowns:

The demands for detailed breakdowns of P2R by risk block and clear articulation of calibration mechanics, while appealing for predictability, threaten to degrade the SREP into a "box-ticking" compliance exercise.

**Supervisory Discretion for Evolving Risks:** The SREP is a qualitative, forward-looking judgment. Requiring granular, reassessed breakdowns after every Pillar 1 change risks making P2R a mechanistic arithmetic adjustment rather than a holistic assessment of the bank's risk profile. This rigidity would hamper supervisors' ability to respond dynamically to new, emerging risks not yet codified in Pillar 1 or to adjust their assessment based on confidential information.

**Risk of Supervisory Gaming:** Excessive transparency on the precise calibration "formula" invites banks to manage their capital and reporting to optimize against the disclosed criteria, rather than to genuinely mitigate risks. This could obscure true vulnerabilities from investors and depositors, who might be misled by a false sense of predictability.

**On Recovery Plan Assessment in SREP Scores:**

Requesting a prescriptive, consistent method for reflecting Recovery Plan (RP) and Overall Recovery Capacity (ORC) assessments in SREP scores or P2G seeks to proceduralize a deeply strategic judgment.

The assessment of recovery planning is inherently institution-specific and qualitative. A weak recovery plan may signal profound governance or strategic failures that should influence the overall SREP score and supervisory actions. However, mandating a fixed, transparent mapping (e.g., "X ORC shortfall leads to Y addition to P2G") would be reductive. It could incentivize banks to design plans that check boxes for capital relief rather than ensuring credible strategies for restoring viability in distress. The link must remain within the realm of supervisory judgment to preserve the integrity and credibility of recovery planning as a genuine tool for crisis preparedness.

These other BSG members conclude that an overly broad neutralization of P2R when the floor applies could excessively reduce overall capital requirements. P2R covers more than just model risk, it is therefore too simplistic to just equate the output floor delta with P2R. Rebasing the output floor should be a one-off, not a constant review. After that, it becomes a matter of normal day-to-day supervision to adjust P2R for any newly discovered risks, and a matter of IRB model reviews by National Competent Authorities to track deficiencies in modelling. Temporary cap on P2R must only relate to the portion that addresses model risk, not the other elements of P2R.

Offsetting between P2G and the countercyclical buffer must remain exceptional, as these two instruments have distinct objectives: one is microprudential and linked to the individual risk profile, the other is macroprudential and responds to aggregate credit cycles. A systematic offset would weaken one or the other of these objectives.

The BSG would welcome a proposal from the European Commission to further simplify the micro- and macro- prudential buffers in Pillar 1 in order to simplify their application and make their interaction with Pillar 2 more standardized and predictable.

## Title 8: Assessing risks to liquidity and funding and SREP liquidity and funding assessment

### **Q14. Views on the merger with the former “SREP liquidity assessment” and on the combined liquidity and funding adequacy score**

n.a.

## Title 9: Overall SREP assessment and communication

### **Q15. Views on enhanced communication aspects**

The BSG welcomes the introduction of enhanced provisions on the transparency of SREP decisions, as reflected in Article 451. Improved communication can help institutions better understand the material risk drivers and key deficiencies identified in the SREP, thereby enabling them to prioritise remediation actions and allocate resources more effectively to the most relevant risk and capital issues, in line with a sound cost-benefit perspective. In this context, some members of the BSG consider that these transparency provisions should apply not only at group level, but also, where relevant, to entities belonging to larger groups that are subject to individual SREP assessments and P2R/P2G decisions, to ensure clarity and consistency of supervisory expectations. Overall, the BSG supports an approach to SREP communication that enhances transparency on key drivers and supervisory expectations, while preserving an appropriate level of discretion and flexibility for competent authorities, so as to maintain effective supervision and safeguard financial stability and depositor protection.

## Title 10: Application of the SREP to cross-border groups

### **Q16. Appropriateness of coverage and level of detail**

The BSG considers that the guidance for supervisory colleges set out in the draft Guidelines is helpful in promoting alignment and convergence of supervisory approaches across competent authorities. In this context, the BSG is of the view that the guidance on coordination within supervisory colleges could be further strengthened, including by clarifying that colleges should ensure an effective flow of information among competent authorities and, where appropriate, support coordinated planning of supervisory inspections and other measures. At the same time, the BSG recognises that consolidated supervision should not prevent local authorities from adopting proportionate measures in response to risks that are specific to a particular entity or market. Convergence at European level does not imply full uniformity, but rather the pursuit of common supervisory objectives while allowing necessary adjustments to reflect local risk characteristics and market conditions.

Against this background, some members of the BSG note that the possibility to set SREP measures at subsidiary level may, in some cases, impose an undue burden on the consolidated group, particularly where such measures would require significant deviations from group-wide frameworks without a clear link to the subsidiary's risk profile. Supervisory colleges should therefore play a coordinating role in ensuring that local requirements do not lead to unnecessary fragmentation or operational inefficiencies at group level, while preserving the ability of local supervisors to address material, entity-specific risks. These BSG members also note that the current prudential framework, involving both microprudential and macroprudential authorities, may give rise to overlaps in supervisory requirements. In this context, effective coordination within supervisory colleges could help mitigate the risk of duplication or double counting of risk mitigants, including where SREP measures interact with existing local regulations or macroprudential policies, such as capital buffers or other prudential add-ons.

At the same time, the BSG considers it is important that enhanced coordination within supervisory colleges does not unduly constrain the autonomy of local supervisors, as maintaining sufficient discretion at local level is essential to identify and address risks that may not be fully captured through a consolidated perspective. Preserving this balance would help avoid potential supervisory blind spots and support effective, risk-sensitive supervision. Title 11: Supervisory stress testing

#### **Q17. Appropriateness of coverage and level of detail**

n.a.

### **Title 12: Assessing third-country branches**

#### **Q18. Appropriateness and clarity of the guidance for the assessment of third-country branches**

The BSG considers that the guidance on the assessment of third-country branches would benefit from further clarification regarding its scope of application, in particular as to whether the relevant provisions are intended to apply exclusively to the [list of third-country branches](#) published on 13 October 2025, or whether a broader application is envisaged. At the same time, the BSG recognises the importance of a robust and clear framework for the supervision of third-country branches, in order to ensure that they operate according to standards equivalent to those applicable to EU establishments, thereby protecting consumers and safeguarding the stability of the internal market. In this respect, the scope of the guidance should allow competent authorities to capture all third-country branches that may present material risks, rather than being interpreted in a narrowly prescriptive manner limited to a pre-established list.