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Response to Consultation Paper | 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

Brussels, 29 April 2026

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.

Finance Watch supports the use of **more granular sectoral data to assess transition risk**, as it provides the first layer that relevant authorities can leverage to target transition risk effectively. Sectors face varying degrees of transition risk: some cannot transition and will need to be phased out, carrying the risk of assets becoming stranded. Others can transition but are exposed to different types of transition risks. For instance, certain sectors are more vulnerable to carbon pricing due to their significant carbon footprints, while others impact the environment through land-use changes or raw material extraction, affecting biodiversity. Some other sectors are less exposed to transition risk as they are not primary contributors to climate change at the systemic level. Given this diversity, it is essential to enable relevant authorities to target specific sectors. This ensures that measures addressing climate-related systemic risk do not have unintended consequences for banks' capital allocation.

The European Banking Authority (EBA) proposes adding the "division" level, while allowing relevant authorities to examine more granular sectoral data ('groups" and "classes") to identify fossil fuel activities. To clarify and simplify these guidelines, and to ensure no exposure is subject to additional capital requirements without carrying additional risk, we suggest amending paragraph 24 as follows:

"24. The subdimension 'economic activity' should include the economic activities identified by an alphabetical code in the appropriate ~~first~~ level (sections, divisions, groups, classes) ~~or the second level (divisions)~~ of the common statistical classification of economic activities in the European

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Community (NACE) as set out in Annex 1 to Regulation (EC) No 1893/2006. To identify exposures to fossil fuel sector entities, this subdimension should include NACE codes at a more granular level, where necessary."

For example, transition risks of exposures under Division 24 (Manufacture of basic metals) within Sector C (Manufacturing) are highly heterogeneous. Relevant authorities could target exposures in subgroup 24.10 (Manufacture of basic iron and steel and ferro-alloys) due to their high greenhouse gas (GHG) intensity, without impacting exposures in 24.44 (Copper production), which is essential for the electrification of the EU economy and its sustainable transition.

Nevertheless, improving the economic sector granularity isn't enough to avoid unintended consequences on transition and adaptation financing. To distinguish exposures facing high climate risk from those facing less or no transition risk within the same NACE sector, **relevant authorities must consider metrics such as emission scopes and taxonomy alignment under the "risk profile" dimension.** Banks already report these metrics for Pillar III disclosure, and relevant authorities can easily access this information at the exposure level. However, static and historical metrics alone are insufficient to identify exposure subject to transition risk. Climate risk is inherently forward-looking, hence assessment of this risk must account for the transition progress of a counterparty based on its transition plan. For example, future Greenhouse Gas (GHG) emissions of a company are an important and complementary piece of information to assess transition risk (in addition to current GHG emissions). Moreover, financial risk is also linked to counterparty market share evolution. Transition risk may increase for a counterparty that is not transitioning as quickly as its competitors or market expectations, translating into a decrease in its market share and increasing its financial risk.

To address these considerations, **we propose including GHG emissions, EU Taxonomy alignment metrics, and transition plans as possible metrics when defining the risk profile of an exposure.** We suggest amending paragraph 28 as follows:

"28. The subdimension 'risk profile' should include the following elements:

…

- GHG emissions (scope 1, scope 2 & scope 3)
- Exposure considered as environmentally sustainable according to Article 3 of Regulation (EU) 2020/852
- Exclusions from EU Paris-aligned Benchmarks as defined in Commission Delegated Regulation (EU) 2020/1818
- Transition plans as defined in Article 19a or 29a of Directive 2013/34/EU of the European Parliament and of the Council (the Corporate Sustainability Reporting Directive)"

To illustrate this, consider the same NACE sub-sector, as in the first question, 24.10 (Manufacture of basic iron and steel and ferro-alloys). Steel production is highly carbon-intensive and highly sensitive to transition risk. But all steel companies aren't exposed to the same transition risk, those already using cleaner steel means of production ("green steel") shouldn't be considered for the purposes of sectoral buffer calculation addressing transition risk. Similarly, a steel company with a credible transition plan to transition away from carbon-intensive production also faces reduced transition risk. This example demonstrates that relevant authorities should be able to consider metrics beyond the NACE sector to target specific exposures to climate 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.

We support the inclusion of Energy Performance Certificates (EPCs) as an additional subdimension of the risk profile for real estate exposures. EPCs provide a critical distinction among mortgages when assessing transition risk. EPCs influence household property prices and credit conditions[1], and, over the recent years, more public policies have been implemented in this sector. This trend underscores the importance of EPCs as a possible indicator and differentiator of the transition risk of mortgages.

However, relevant authorities would need to rely on harmonised and up-to-date data to effectively implement this approach. Currently, EPCs are not harmonised across the EU, which could create opportunities for regulatory arbitrage for foreign banks operating under less strict national EPC frameworks if a sectoral SyRB using this indicator were implemented. This lack of harmonisation will also complicate reciprocation measures between member states. Until these disparities persist, relevant authorities will not be able to rely on EPCs to target exposure in the case of a sectoral SyRB.

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.

[1] Joint Research Centre, *Energy efficiency, the value of buildings and the payment default risk*, 2018

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Geographical localisation to address physical risk is meaningful. NUTS level seems enough, but we support the use of LAU level for countries where NUTS level 3 is still insufficient to address local specific physical risk.

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 proposal of the EBA to keep the flexibility to combine several dimensions when defining a subset of sectoral exposures for a SyRB. This flexibility allows relevant authorities to target precisely the source of the identified systemic risk, minimising undesirable effects on other exposures. To preserve transparency and comparability across jurisdictions, the different values that those dimensions could take should be clearly mentioned by the EBA in the guidelines, ensuring harmonisation across Member States.

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.

The use of harmonised data sources is helpful to facilitate the reciprocation of SyRB measures across Member States. Nevertheless, some Member States' particularities may be difficult to address without using local data sources to better identify the systemic risk. We support the proposition of the EBA to primarily use, wherever possible, harmonised data sources when identifying a subset of exposure vulnerable to systemic risk.

In addition, **many reciprocity issues could be overcome if more recommendations from the ESRB on addressing common systemic risks were provided**. For example, the ESRB has issued many recommendations concerning the real estate-focused macroprudential measures, helping National Competent Authorities (NCAs) to align on the methodology and indicators used to implement their SyRB related to real estate exposure. This could be expanded to other shared risks among Member States, such as systemic risk from highly leveraged counterparties or climate risk. Concerning the latter, whereas it is important to account for local specificities to better target transition or physical risks, recommendations from the ESRB in terms of indicators to follow and

calibration methodology would allow for a better alignment among NCAs and thus, facilitate the reciprocation of such SyRB.

Finally, if more high-level recommendations are issued, automatic reciprocation rules should apply for SyRB measures implemented in a Member State to local exposure from the banks of other Member States. This automatic reciprocation would be communicated by the ESRB, facilitating the communication of the information across all NCAs and financial institutions. This would have the benefit of simplifying the reciprocation process by largely reducing the number of notes from national supervisors to reciprocate macroprudential measures.

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 main objective of this review is to facilitate the implementation of potential SyRB measures to adequately target climate risks. In its update, the EBA focuses on calibrating the sectoral systemic risk buffer and defining subsets of sectoral exposure. However, one section - Part 5, which addresses the criteria for assessing systemic risk - has not been updated. We believe that the definition of systemic risk and the three core criteria - size, riskiness, and interconnectedness - remain valid. However, we emphasise that for climate risk, relevant authorities should adapt their approach to assessing riskiness (including risk identification as such). Currently, relevant authorities are encouraged to rely on historical data and stress test results when evaluating riskiness. Climate risk is inherently forward-looking and irreversible, making climate stress tests the only viable assessment tool available. Unfortunately, climate stress tests are still limited due to the radical uncertainty surrounding climate risk and the limitations of current climate scenarios[2]. This is in contrast with the clear warnings from climate science about the systemic disruptions we will face in the case of unmitigated climate change.

Given this context, we propose that the EBA amend paragraph 19 to **allow relevant authorities to incorporate evidence-based insights from other scientific fields, such as climate science, when assessing the riskiness of exposures subject to climate-related risk drivers**.

"19. Relevant authorities should consider whether the credit, market and liquidity risk of the targeted subset of exposures is correlated with the magnitude of losses stemming from this

[2] Finance Watch, *Bridging the gaps in climate scenarios*, 2025; Abrams & al., *Recalibriting Climate Risk*, 2026

subset. Possible measurements of riskiness may take into consideration historical loss/impairment rates, PD/LGD developments, value adjustments and market developments. Forward-looking indicators including losses under adverse macroeconomic developments may also be considered, given the pre-emptive nature of macroprudential buffers. With respect to cross-disciplinary risks, such as climate-related risks, competent authorities may, where traditional indicators fail to capture the systemic or global dimensions of such risks, rely on cross-disciplinary, evidence-based indicators to inform their assessments."

Additionally, **when relevant authorities assess the interconnectedness dimension of climate risk, they should closely monitor the growing insurance protection ga**p. This gap could lead to a surge in systemic risk within the real estate sector. Mortgages in regions heavily affected by this gap will face elevated default risks, which macroprudential authorities should closely monitor to prevent these risks from becoming systemic. The European Insurance and Occupational Pensions Authority (EIOPA) is monitoring the evolution of insurance protection in EU member states[3]. This data could serve as a valuable resource for relevant authorities to assess and mitigate related risk effectively.

Finally, given the current challenges in modelling future losses from climate risk due to the forward-looking nature and radical uncertainty surrounding climate change, we propose that the EBA explicitly state that, in cases where evidence shows current modelling is insufficient to capture the size or riskiness of climate-related risks, a precautionary approach should be adopted by relevant authorities. This approach would aim to safeguard financial stability and pre-emptively mitigate the potential escalation of such risks.

[3] EIOPA, *Dashboard on insurance protection gap for natural catastrophes*