

## One-off Fit-for-55 climate risk scenario analysis EBF response to the EBA consultation

9 October 2023

### General comments

#### Clarity of the rationale and interaction with other supervisory exercises

- The ECB recently published the outcome of the second economy-wide stress test. While we understand that the main objective of the Fit for 55 exercise is to assess the resilience of the financial sector and its ability to finance the EU 2030 objectives, we would assume that the ECB now has the necessary data on banks' counterparties, thus we would appreciate some background as why a similar set of information coming directly from the banks (although not necessarily consistent in terms of metrics, levels of aggregation, etc) is again required. In addition we note that banks are already publishing information in the Pillar 3 report.
- We would appreciate some insight on the relation between the one-off Fit-for-55 scenario analysis and the ECB climate stress test. We note that, even though the one-off Fit-for-55 is characterized as a scenario analysis/ data collection exercise, it is based on three risk scenarios, hence in principle presenting the attributes of a stress test exercise. It is important to understand the underlying rationale, interconnection across exercises and the way forward whilst ensuring that overlapping demands on the industry are minimized as much as possible.
- The EBA refers to cooperation with the SSM and other competent authorities when launching the data collection. We would appreciate further clarification on the extent of the ECB involvement and division of tasks between all involved authorities.
- Finally, we would appreciate further clarity on the process and expectations from banks:
  - Can you please confirm that banks will not be requested to do any work in the stress test phase?
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- Can you confirm that once banks have submitted the templates there will be no request for additional submissions?

### Timeline

- Overall, we note that significant effort will be required to gather all the requested climate related attributes. Counterparty emissions, energy consumption data split by different types reported in kWh; Net zero reduction targets of the counterparty are currently not necessarily available in banks' systems and need to be collected. While we understand that the data collection will start at the beginning of December, we would appreciate that the EBA provides a concrete timeline for this exercise including concrete deadlines for the submissions of the templates as we understood this will be done in stages from the beginning of December to mid-March.
- In this regard we would like to note that it is very challenging for banks to initiate this data collection at the end of 2023 considering the parallel initiatives running at the end of the year (e.g. ICAAP). Given the high workload for banks in the Q4 as well as the high granularity of the data requested at various levels with different geographical splits depending on the template and the need to collect such data first, it would be appreciated if the EBA could take this into account. Otherwise, there is a risk of engaging resources to overlapping reporting requirements, with uncertain usability and results.
- We would also appreciate the EBA to make the final templates available as soon as possible so that banks have time to adapt their internal process and fill in the templates on time. We understand that the first data quality check is expected mid-end January 2024. We suggest that banks are given sufficient time between the final templates publication and submission (taking account the holiday period). It should also be considered that the 2022 GHG data will only be published by Eurostat at the end of 2023. We would therefore appreciate the submission deadline not be before end January 2024.

### Publication of the outcome, feedback to individual banks and the use of the results

- We understand that the Fit for 55 exercise will be used to assess the resilience of the financial sector as a whole. We also understood from the public hearing that there will be only one public and global communication, with no individual banks' results or country-specific data publicly disclosed by the EBA. We would appreciate this to be formally confirmed. We would also appreciate more details on how the provision of individual feedback to banks is envisaged.
- The document presenting the mandate of the ESAs explains that "the purpose of this exercise is not to set micro- or macro-prudential requirements for financial institutions" and "The results could feed into subsequent supervisory or monitoring programs of the ESAs and the ECB". Nevertheless, it is not clear how these results will concretely be used. Can EBA please

confirm that individual banks will not be impacted by the exercise. We would appreciate confirmation that the results or the quality of the data reported will not be taken into account in the SREP.

- The outcome of the exercise is expected to be released by the end of 2024 and in any case not later than Q1 2025 – The timing between the data collection exercise and the publications of the outcomes seems to be too long as exposures of banks might have changed as well as other actions implemented in the meantime.

### **Data quality and availability**

Would it be possible to specify the details of the quality controls that will be carried out on the different templates? It will be difficult for banks to reconcile their credit risk analysis with the data provided by Anacredit, as banks are not aware of the final submissions made by the national central banks.

- What controls will the EBA apply on the data reported by each bank? What are the validations rules?
- If data is obtained through a data provider, what level of disclosure is required? In addition, we would appreciate clarification as to what causes a high relevance of missing data?
- It would be helpful to clarify whether a pre-validation tool like STAR Portal of EU-Wide Stress Test will be available to assist banks on data quality assurance?
- Given that the exercise is frontloading reporting requirements not yet required in Pillar 3 ESG, that will be only required in June 2024, are there any expectations in terms of data coverage rate? Data gaps are most notable for elements such as Energy Consumption by Type and Net Zero reduction target (2030), the information on energy consumption expressed in Kwh (from oil, gas, electricity renewable sources and others), interest rates by EPC or NUTS3. Could this information be provided on a best-efforts basis?
- Given the limited data availability, banks will have to rely on collaboration with external data providers / open-source data. They will have to use proxies and estimates or collect the information from data providers. As methods for estimating will vary from one bank to another (and from one data provider from another), the comparability of the data reported will be limited. We propose that the EBA provides climate-related information for the selected 39 companies. As these companies are the same for all banks, this will ensure greater comparability between banks.
- We believe that the data collection should not include data, that are unlikely to be aggregated with a reasonable data quality. Please see below examples where we believe specific reporting should be simplified or omitted:
  - For energy consumption of the counterparties, the data on energy consumption of each counterparty, as well as the split by energy sources is not available in the institutions, and thus it is expected that any aggregation will create dubious results.

- Until now, CO<sub>2</sub>e-reporting has allowed the sum of scope 1 and scope 2-emissions to be reported together, including for PCAF-reporting. Hence, splitting into separate scope 1 and scope 2 values is not available for 2022-data. Given the scope of the Commissions' request, we do not believe the split will add value to the analysis, and hence that scope 1 and scope 2 should be reported as a sum.
- For scope 3, there is not a clear methodology for reporting, and data is not generally available. We do not believe such reporting could be used in any aggregated way and should therefore be omitted.
- Data for net zero reduction targets has not been collected in a systematic way and is not generally available. It is allowed to report blank values, but we question whether any conclusions would be able to be drawn based on what is expected to be very low coverage.
- Is a look through expected, e.g. if a bank has exposure to Funds (receivables) does the bank need to consider the underlying exposure of the funds?

### **Reference date**

- In general, there is a lag between emissions data vs financial data. We understand that the reference in terms of emissions counterparty data (GHG, energy consumption, financials) is year-end 2022. Nevertheless, we would appreciate more clarity on the process (timelines, delivery dates, etc as requested above, in order to evaluate the feasibility to fulfill the templates.
- Q4 2022 is given as the reference date for data. Can this be more specified also in the context of Interest and Fee Income (i.e. FY 2022 data vs. Q4 data required)?

### **Methodology**

- As a general comment, the methodology has evolved since Q4 2022. It should be clarified if later improvements in data and methodology could be used on the 2022 Q4 balance.
- We would appreciate clarity as to scenarios and time horizons that will be used for this exercise. This is important for banks in order to understand the individual feedback as well as for improvement of their transition and physical risks management .

### **Q&A**

- We would very much appreciate the EBA (or the relevant competent authorities in general) Q&A tool for questions where clarifications are needed during the process.

### **Template submission**

- For the reporting (Excel) template seems locked for the choice of reporting institution (Bank name).
- Will an Explanatory Note be required together with the templates' submission? If yes, will the Explanatory Note guidelines be published along with the final version of the templates?

## Comments and questions on specific templates and guidance

### Credit risk:

- The title of the CR Top Counterpart template indicates "Top 10 counterparties" (same for MR Top counterparties). The title should be amended and indicate "Top 15 counterparties".
- What is the scope of the financial and the climate-related data that banks have to report? We understand from the public hearing that the information requested of the Euro Stock companies is at the last parent level and the information requested for the top 15 is at counterparty level but would appreciate a formal confirmation Can the EBA confirm that for EuroStoxx groups, all information is to be provided on a consolidated basis (including GHG and energy consumption data) so that effectively group level values are reported? Should exposures then be reported at group level or at obligor level (i.e. only exposures to the parent company)? How is the "roll up" logic supposed to work if data is not available for the immediate counterparty, i.e., should firms look at intermediate/ultimate parent data for metric calculations?"
- Should the exposure related to holding counterparties also include the exposure of subsidiaries?
- In most instances such data will be available only at group level and no information will be available at obligor level (for example in the case of treasury centers or subsidiaries). If banks are expected to report information, and in particular climate-related information, for the obligor only, only few information will be reported as climate-related information is usually only available at group level. Therefore, we propose that:
  - Banks report the information that they are able to collect, whether the scope only includes the obligor or the entire group.
  - The EBA adds columns in the template, so banks are able to indicate whether the information reported include the entire group or is limited to the obligor.
  - When banks will report consolidated climate-related data for a specific counterparty, they will apply the same level of consolidation for the financial-related information. It is necessary that climate and financial data have the same scope to ensure coherence and allow the EBA to make relevant analysis and calculations.
  - Certain fields should be common or homogenous across all participating banks. For example, for the EU Stoxx 50 compiles, information in columns 4,5, and 13-32 should ideally not change regardless of which financial institution is submitting the data.

Could the regulator explain why this information is being collected individually from participating firms and how this data will be used?"

- Does the materiality threshold also apply to the Euro Stoxx companies? Does data for EUROSTOXX50 have to be provided, although the respective sector does not reach the materiality threshold?
- Further guidance regarding the Group's subsidiaries in scope of the exercise will be appreciated.
- In some industries such as aviation, financing can be provided to special purpose vehicles (specialized lending)? These SPVs could be among the top 15 for these industries. Can the EBA provide guidance on how GHG emissions and energy consumption data should be provided in such instances?
- The breakdown of NACE codes is different in the templates, e.g., template "CR\_Top\_Counterp" vs template "CR\_Aggregated\_Data. For homogeneity, we suggest to use NACE 2 breakdown as in the "CR\_Aggregated\_Data" template.
- CR Aggregated Data template - Could you please clarify whether aggregated data should be reported before or after credit risk mitigation substitution effects? Is it correct to assume that Exposure, NACE-Sector and Risk parameters (PD/LGD) must be referred to original obligor while REA amount is after substitution?
- Can the EBA clarify the definition of financial holdings to be excluded from the Top\_Counter template under section 18 of the guidance?
- Does the exclusion of financial holdings applicable to CR\_Top\_Counterp also apply to CR\_Aggregated\_Data?
- Companies should be reported together with a corresponding LEI code. To improve internal matching, are other / additional unique company identifiers possible?
- It is required to report net zero reduction target for scopes 1 and 2 for each counterparty, expressed in %, over the selected time horizon (2030). First, we would like to underline that collecting this information from counterparties will be challenging as it is not always published, nor produced. Second, Section 49 of the template guidance suggests the development of proxies for net zero reduction targets. It is difficult to see how company targets could be modelled. The suggestion would be that either a target is available and is reported or the cell is left blank. It would make no sense to develop proxies to model a net zero reduction target in case the counterparty does not publish one. Net zero reduction targets adopted by one company to another vary and reflect internal decisions that banks cannot know. Therefore, we propose the following solutions to the EBA:
  - Banks can use a net zero reduction target published by a counterparty even if the net zero reduction target includes its scope 3 or is expressed in terms of intensity and not in absolute value. We ask the EBA to add a qualitative part where banks will explain the characteristics of the reduction target.
  - Banks should be given the possibility not to report the information if they are not able to collect it.
- For each of the counterparties reported in the template, information on their energy consumption is required ((« oil » (KwH), « gas » (KwH), « electricity » (KwH), « renewable resources » (KwH), « Energy consumption from other sources » (KwH) et « total energy consumption » (KwH)). We would like to provide the following comments:
  - As stated above, this information will be difficult to obtain for certain counterparties. It should be allowed to provide this data on a best effort-basis and not to report anything in the template in case of non-availability of the data. It is

important to underline that it is the first time that banks are required to collect the energy consumption of their counterparties and therefore some information will not be available or possible to collect.

- Requiring information on energy consumption with this level of granularity may not be useful for all counterparties. Depending on the sector, information on oil or gas consumption may not provide relevant information.
- All the information on energy consumption must be reported in kWh while information on “oil” or “gas” are usually not published in kWh by banks’ counterparties. Can EBA please provide a conversion rate to ensure comparability between banks’ reporting?
- We would also appreciate if EBA provides guidance for cases where a company owns but does not operate a facility or vice-versa. For example, a company can own an asset but not operate it (real estate investor leasing an asset to a tenant). Moreover, a company can only rent an asset for revenue generation but not owning it (an oil company renting a refinery for conducting activities).
- Regarding scopes 1, 2 and 3, banks are required to report the methodology they used to estimate them, where appropriate. Nevertheless, the template guidance does not explain the information to report if banks directly buy this data from a provider that does not explain its methodology. In this specific situation, we propose that banks report “other methodology” in the template.
- Clarification is requested for treatment of specific case of substitution. We would like to understand how to report the various parameters (PD, LGD...) in the template in the case where a bank has an exposure towards a company A that is partly guaranteed by a company B before or after substitution?
- Can the EBA please confirm that exposure to be reported in Column 8 exposure value” includes counterparty risk and off-balance sheet commitments and follows the definition of regulatory EAD? If so, could you explain the difference with Risk Exposure Amount (REA to be reported in column 11)?
- Section 33 of the template guidance does not specify how remaining maturity should be calculated. Can the EBA confirm that this is the average remaining maturity weighted by exposure of facilities granted to the obligor?
- Can the EBA confirm that the average LGD of facilities granted to the relevant obligor weighted by exposure amount is the value that should be reported in Column 4 “LGD starting point”? Section 31 is not explicit on how LGD starting point should be calculated.
- Can the EBA confirm that all counterparty data (GHG, energy consumption, financials) are year-end 2022 values?
- Can the EBA confirm that Total Debt to be reported in column 32 is gross debt reported in liabilities and not net debt (net of cash)?
- Does the scope of the exposures include both at cost and fair value positions (similar to CR\_REA in the biannual EBA Stress Test)?
- Paragraph 19: Within each sector, a materiality threshold of 1% of total corporate credit exposures by sector applies. What definition should banks use for “total credit exposures” here?
- Paragraph 19: Given the large discrepancies in size between participating banks the materiality threshold should also be accompanied by an absolute threshold of 100 MEUR
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- Paragraph 19: Exposures to smaller counterparties not in scope of CSRD reporting requirements should be excluded from this exercise
- What is the definition of “starting point” which is mentioned in paragraph 30, 31, 59, 60, 128, 136?
- If a bank is partially relying on proxies for a counterparty, does it always have to answer "yes" in 35, 38, 41?
- Paragraph 29. EAD: is it correct to assume that as indicated in this paragraph, the IRB EAD to be reported must be pre-CCF? This reporting criteria differs from the one used in the 2023 EBA stress test (EAD IRB reported post CCFs). In order to be consistent with previous ST exercises and to guarantee alignment with COREP, EAD to be reported should be post CCFs
  - Exposure value is defined, for the IRB approach, as in COREP 09.02 column 105 (net exposure after Credit Risk Mitigation (CRM) substitution effects pre-conversion factors. Amount of the exposure net of value adjustments after taking into account outflows and inflows due to CRM techniques with the substitution effects on the exposure). For the STA approach, it is defined as in COREP 09.01.a column 075. (Article 111 of CRR and Part 3 title II chapter 4 section 4 of CRR. Exposure value after considering value adjustments, all credit risk mitigants and credit conversion factors that is to be assigned to risk weights according to Article 113 and part 3 title II chapter 2 section 2 of CRR.) This should be provided for total corporate as defined in point in paragraph 18. In comparison with other stress test exercises where the EAD IRB was the capital EAD considering CCF effects, this methodological note of the data sets changes the definition of this IRB EAD. It happens as well with the STD EAD, defined without CCF effected in the usual ST exercises and full affected in this one.
  - According to the template guidance exposure is defined as the amount of the exposure net of value adjustments after considering outflows and inflows due to CRM techniques with the substitution effects on the exposure (template C09.01, column 075). If significant risk transfer (SRT) has taken place but the securitization has been retained on the balance sheet, could Eba please confirm that the exposures (or the part of the exposures) has to be excluded from the exposure value?
  - Could EBA confirm that in case of off-balance sheet items, the exposure shall be reported after CRM substitution effects and regulatory (or accounting) CCF?
- Paragraph 30 and 31, starting point PD and starting point LGD respectively. Both paragraphs indicate that, if no IRB model for calculating the obligor regulatory parameter is available, the bank should input the corresponding IFRS9 parameter. If this is the case, it could be inconsistent to report regulatory EADs with IFRS9 parameters. It is suggested to keep only one criteria, for both, EADs and parameters.
- To keep the coherence between the requested regulatory parameters for IRB portfolios and those reported for STA portfolios, could it be an additional option (to the ones already included in the template guidance) to report the Economic Capital parameters - that keep the same nature as the regulatory capital ones - instead?
- CR-Aggregated data Section 54 of the template guidance refers to 22 climate-relevant NACE sectors while a significantly larger number of sectors is reported in the template. We recommend aligning the template with the guidance and have a common granularity of 22 NACE sector groupings in both templates.
- «CR\_Aggregated\_Data » (credit risk):

- Can the EBA please clarify whether the exposures to be reported are those reported in the COREP (on line 0070 of COREP C 09.01 and line 0030 of COREP 09.02) or the FINREP?
- We understand that the list of top 5 countries should be determined taking into account the total exposure that a bank has towards these countries (rather than the cumulative exposure to the sectors with NACE codes A-I, L). Can EBA please confirm?
- Should exposure to Hong-Kong be included in the exposure to China?
- Regarding the data: “PD starting point (%)” we would appreciate clarification as to whether banks should take into account Credit Risk Mitigation Techniques for the PD assigned to the obligor.
- Regarding the data: “LGD starting point (%)” we would appreciate clarification as to what is the “LGD assigned to the obligor from IRB model”? Is it LGD before considering any credit risk mitigation?
- We would appreciate further clarification on how the CR\_Aggregated\_Data template should reconcile with CR\_Top\_Counterparty template. The data for CR\_Aggregated\_Data is to be split by Top 5 countries, other EU countries and Non-EU countries (defined as Canada, China, Great Britain, Japan and United States) whereas the CR\_Top\_Counterparty covers EU and non-EU countries without further specification. What should banks do with remaining exposure e.g. Other EU and exposure that falls outside of the 5 specified non-EU countries?
- In the CR\_Aggregated\_Data template, participating banks are required to report credit risk and climate-related information for the top 5 countries (both EU countries and 5 selected non-EU countries). This would mean that all countries, even of low materiality, should be included in the data collection effort. It would be expected to introduce proportionality via a materiality threshold, as usual in similar exercises (e.g. as in the ECB Climate Risk Stress Test of 2022).
- In the CR\_Top\_Counterparty template the MN shows that the holding clients must be excluded, but in the point 54 of the CR\_Aggregated\_Data it is said that the holding companies should be classified following the revenue of their biggest company:
 

*“18. In this template, participating banks are required to report companies’, credit risk, climate-related and financial information of the top 15 counterparties, in terms of exposure, for each group of climate-relevant NACE 2 sectors. Banks should map (the exposures to) the obligor to one single NACE 2 sector based on its principal activity (i.e., the activity that generates the highest share of the obligor’s revenue). The scope of this template is corporate exposures, both SME and non-SME, to non-financial obligors, treated under both the standardised (STA) and the internal ratings-based (IRB) approaches. Total corporate exposures (i.e., corporate exposures to non-financial obligors) should be defined according to point (c) of Article 147(2) and point (g) of Article 112 of the Capital Requirements Regulation (CRR). Please, note that financial holdings are excluded by the scope of the template. The countries covered by the template are both EU and non-EU countries.*

*54. In this template, participating banks are required to report credit risk and climate-related information for the top 5 countries, in terms of exposure, and to split their corporate exposures between 22 climate-relevant NACE 2 sectors. The countries covered by the template are both EU countries and 5 selected non-EU countries (i.e., Canada, China, Great Britain, Japan and United States). Banks should map (the exposures to) the obligors to one single sector based on its principal activity (i.e., the activity that generates the highest share of the obligor’s revenue”.*

Should these holdings, NACE 64.20, be reallocated or completely eliminated from these templates? We believe that this also applies to head offices, NACE 70.10

- Par 34, 37 and 40 (and 86, 89 and 92 MR). Can you please confirm if the requested emissions in templates “CR/MR\_top\_counterp” refer to actual reported emissions by obligors? If so, all banks should provide same data in this column.
- Information in column AH to AK or AF to AI does not refer to individual financial instruments but to the financial statements of the entities. This information is publicly available so why is there a need for banks to report this information (question also refers to MR\_Top\_Counterp)?
- It will be difficult to obtain aggregated emissions intensity by sector and country. This will result in data gaps and need to estimate emissions where not available. Will there be more guidance on calculating emissions intensity? For example, what if not all emissions data are available for a sector? Regarding the financed emissions to be reported in “Aggregated data” templates (Par 63-65 and 116-118) can EBA please clarify how should banks calculate financed emissions in case they do not have obligors’ revenues? Is it expected that, when calculating emissions intensity, should the most recent annual revenues be used, or should firms use an average over a recent period? How should “Purchased Electricity” be treated, i.e., how can firms ensure that this reflects electricity without renewables? Regarding S1, S2, and S3 emissions & energy consumption, is it possible to have further details on the methodology that should be used to source absolute numbers / weighted average?
- We would also like to mention the different granularity/split of emissions scopes among P3, STE and CST.
- Financed emissions are required in CR and MR templates, resulting in a need to differentiate between credit risk and market risk products/portfolios. It is however challenging to assign emissions to trading activities. Do banks have to report same absolute emissions information for these companies in CR and MR templates?
- When reporting absolute emissions in templates CR/MR\_top\_counterp, the priority is to include obligor’s actual reported emissions, although banks can’t obtain actual reported emissions the request is to estimate them according to different PCAF methodologies. In this sense, within the PCAF Economic-activity approach, two methodologies are identified: 1) Average emissions per revenues 2) Average emissions per assets. In case banks only can use the second meth due to lack of data, the resulting absolute emissions will be very different because are based on the exposure the bank has with the obligor: Counterparty’s financed emissions (tCO<sub>2</sub>e) = Sectoral average emissions by sector and geography per M€ of assets in a sector (tCO<sub>2</sub>e/M€) \* Counterparty’s outstanding (M€)
- Regarding the data: “Weighted Average S1/S2/S3 GHG emissions intensity (weighted by exposure) (tCO<sub>2</sub>e/€)”: How should dedicated loans where the obligor is an SPV with no revenues be considered? Would it be possible to confirm that the “exposure” mentioned in paragraph 63 of the template guidance corresponds to the definition of “exposure value” mentioned in paragraph 57?
- Can the EBA confirm that only corporates’ exposure is considered (not sovereign, financial or retail exposures)? which would lead to a partial view of the impact (same question for market risk)
- Could the EBA clarify whether only Risk Weighted Asset (RWA) and/or credit risk provisions (through Expected Credit Loss) must be considered to capture credit risk?
- Is the threshold of 0.05% of a sector’s contribution to the bank’s total assets applicable on total Group level or on a country level?
- According to the Template Guidance, corporate exposures (both SME and non-SME, to non-financial obligors) are covered by the scope of both the CR\_Aggregated\_Data template, and

also the RE\_Transition\_Risk if they are secured by real estate. By comparison, in the Climate Risk Stress Test of 2022, Corporate exposures were separated into those not secured by real estate collaterals and CREs. In view of the change in approach, it would be useful if EBA shared with the participating banks some insights of the methodology that will be applied in the projection of climate related shocks to the risk parameters of corporate exposures, considering the need to avoid double counting the stress impact.

- Regarding Paragraphs 63, 64, 65 (Weighted Average S1, S2, S3 GHG emissions intensity weighted by exposure): How are obligor's net revenues defined? Would an approach of Gross revenue minus operating expense be considered appropriate, given that these are the metrics expected in the Credit Risk - Top 10 Counterparties template?

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- Scope: Is the geographic split based on customer origin, HQ locations or legal criteria? Other?
- Regarding the perimeter of the information to be reported:
  - Regarding the off-balance sheet, can the EBA clarify what does « inter alia » include in the following sentence (paragraph 72): « These volumes are, inter alia, the underlying loans and advances that generate the interest and fees and commissions income ». Should banks consider only undrawn loans or the whole off-balance sheet, meaning including sureties and guarantees?
  - Could you please confirm that non-financial corporations are to be understood under the FINREP definition and not the COREP definition? It would mean that the “exposure” to be reported would be the gross carrying amount to non-financial corporations (i.e. any type of exposure that generated any of the interest income and fees and commissions income). In this case the reference to paragraph 29 that refers to a COREP definition does not make sense to us.
- Could you please confirm that the expected exposure is the closing gross carrying amount at the end of Q4-2022 (and not a quarterly average in 2022) and what is the rationale behind? Can you also please confirm that income is to be reported on the whole 2022 year and not only the Q4-22?
- Par. 67: How to identify the top 5 countries in terms of income? We assume that in this regards “income” is defined as the sum of “interest income” and “fee and commission income”. We assume as well that for this calculation FINREP total amounts as defined in FINREP 2 row 0010 column 0010 and row 0200 column 0010 can be used. Can EBA please clarify if a separate calculation is required which is based only on income generated by corporate exposures, both SME and non-SME, to non-financial obligors from 22 climate-relevant NACE 2 sectors.
- Can you please clarify that the information that banks should report in rows 116 to 139: “Other” include the total revenues that banks make in:
  - The country included in the template: EU countries + Canada, China, Great Britain, Japan and United States minus the exposures and revenues to the 5 countries already reported in the template or
  - All countries in which they operate minus the exposures and revenues to the 5 countries already reported in the template.

- Par. 68: Does the 0,05% limit refer to the bank's exposure to a NACE 2 sector in total or to the NACE 2 sector of a certain country? If no information related to a NACE 2 sector is reported, has this information to be included to the line "Other"?
- Can the EBA confirm that the country "Other" should capture revenues and exposures in the total scope of the template (EU plus the 5 selected non-EU countries) minus the top 5 (such that the total on RowNum 139 represents the total revenues and exposures for the EU countries and 5 selected non-EU countries)?
- Do banks have to report as well off-balance sheet exposures, which seems contradictory given the fact that in order not to report bank's exposures to an industry, banks must calculate 0.05% of the bank's total assets as reported in FINREP (F01.01)?
- Can EBA please confirm that the reporting is limited to Loans & Advances NFCO as well as equity instruments & debt securities should be considered for the gross carrying amount, interest income & fee income, in all accounting portfolios excluding the HFT portfolio as reported also e.g., into the STE template 15.Climate Risk?
- Paragraph 72: Are the exposures to be reported, the exposures on balance sheet date, as reported in FINREP or year total average (i.e. income related volume) for the corresponding FINREP line?
- Paragraph 72: Are the exposures to be reported average, as more relevant to the generated income, or ending as reported in FINREP/COREP?
- Can the EBA confirm that only corporates' exposure is considered (not sovereign, financial or retail exposures)? which would lead to a partial view of the impact
- Column 1 row 139: Is there any expectation from EBA that to match the total of II with FinRep 16.1 col. 010 (Interest Income) row 130 (Loans and advances – Non Financial Institutions) as the underlying definition seems to be the same?
- Column 2 : What kind of commissions should be included in this column, all products or exposure related only? If the latter, can you please provide the reference to FinRep table 22.01 (e.g. rows 180/190/200/210/211/...)?
- Column 3 : Exposure values are required as end-of-period (i.e. as of 31.12.22 point in time) or average of the 2022 year? How should be considered clients who generated income during the year but having zero exposure at year end?

### Market Risk

- The scope of data requested in the market risk templates looks particularly demanding, in light of the time horizon of market risk activities and compared to what was requested for example in the ECB 2022 climate risk stress test. Asking for information such as GHG emissions or energy consumption of issuers of bonds or shares appears disproportionate in a context where the holding period of trading assets is by nature very short, different from that of credit exposures and the relationship of banks with trading book issuers on one hand and corporate clients on the other hand is fundamentally different. We would appreciate EBA to reconsider this.
- Template «MR\_Top\_Counterpart» (market risk) :
  - Regarding the title of this template could the « Counterparty » word be replaced by "Issuer" so as to avoid any misunderstanding with the Counterparty Credit risk in all documents (excel and word) related to these MR requirements?

- Par 73: What exposure is used to determine the top15? Total exposure? Exposure to bond and equity products? Other criteria? Can the EBA clarify which exposure should be considered? Notional? Fair value? How to consider macro hedges and all other indexes? Shall banks split them by individual component?
- It does not seem to be adequately specified which driver to use for ordering the MR\_Top\_Counterpart template. Is it correct to assume that the driver is Fair value (million EUR) (Par.83)? Is this the same for all financial instruments (Bonds and Equity)? The CR\_Top\_Counterpart template should be filled out by ordering the counterparties based on the Exposure value (million EUR) (Par.29).
- The template guidance defines a materiality threshold of 0.05% of total assets. We propose to increase the materiality threshold to 0.1% of total assets .Can the EBA confirm that for the purpose of this test the value of each of the bond portfolio and of the equity portfolio of the relevant sector should be taken into account separately (and not the aggregate value of bonds an equity portfolio for the sector)?”
- The scope of the market risk template covers all equity and corporate bond positions under full or partial fair value measurement which are held with a trading intent. Does this purely reference to equity / corporate bond issued by a corporate, and not reference to derivatives with bond / equity positions as underlying, e.g. bond forward, equity options etc?
- Are the back-to-back trades relevant for the market risk templates?
- If banks hold equity/credit derivatives as a result of a client-driven activity which are then delta-hedged with linear holdings (e.g. single stocks/equity or bond forward) or with other derivatives, it is not clear whether such exposures should be included in the exercise or not.In this case, is the data field ""First order sensitivity of the hedging instrument to equity"" still relevant or this can be put as blank? Same question goes for bond forward."
- Regarding data related to “First order sensitivity of the hedging instrument”, we have the following questions and comments:
  - The first order sensitivity to interest rate (bonds), credit spreads (bonds) and equity is only requested for the hedging instrument. Banks are not requested to provide the first order sensitivities on the underlying position as well. We suggest that banks provide EBA with sensitivities on the net positions (underlying positions + hedges) instead of only the hedges.
  - What is the definition of these “hedging instruments”? There might be 2 interpretations: 1/ if the bond is hedged via a cds and a swap, the hedging instruments would be the CDS and the swap, or 2/ we report all bond-related products (ie options on bonds, forwards on bonds, for example, but not cds and swaps). We warn the EBA that if the 1st solution is not the one chosen by the EBA, some data would be impossible to gather as there is no 1-to-1 hedges in term of bond vs IR swap.
- What is the definition of “hedging instruments” for equity? Shall banks report only equity-linked instruments or are they also expected to report some potential FX hedges (which may not completely make sense for such a request)
- Are the CDS hedges to XVA in scope for the exercise?
- Should the fair value impacts of equity index or credit index derivative positions (e.g. referencing S&P 500) be broken down into various NACE sectors according to the index composition? How should the fair value impacts of non-linear equity or credit index
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- derivatives (e.g. options on Eurostoxx etc.) be allocated to NACE sectors if not reported separately?
- Does total assets include derivatives? (Derivatives were excluded in the ECB 2022 climate risk stress test)
- The template guidance document does not define what is a hedging instrument. More clarity on this would be desirable.
- Template « CR\_Top\_Counterpart » (credit risk) and Template «MR\_Top\_Counterpart» (market risk) . Can the EBA please confirm that, in the case where a bank has disposed of an entity after 31st December 2022 and before the submission date, the exposure that the was holding via this disposed entity as of 31st December 2022 can be ignored? This precision is important as some top exposures could no longer be on the books of the reporting bank at the date of submission, and the information required in the template will likely not be available.
- In the Template (both for Credit and for Market Risk “Aggregated Data” Template) all sectors from A to U have to be disclosed. The EBA template guidance however would indicate for Market Risk in paragraph 73 that only corporates are in scope. Can accordingly sector O (Government), K (Financial) and U (European Union) be excluded?
- Could EBA please clarify whether the NACE code should be selected based on the principal activity on the last parent level or on the counterparty level ?

### Real Estate Risk

- Regarding the top 5 countries to report, we have the following questions:
  - Should the list be determined considering both CRE and RRE portfolios combined or CRE and RRE individually?
  - Should the list be defined by location of the real estate asset financed or location of the obligor? If obligor (for the corporate part), should we consider the country of business or the country of incorporation of the obligor?
  - If the list of top 5 countries for CRE and RRE includes a non-EU country, does it mean that only 4 countries should be reported in the template?
- Banks should indicate the “applied interest rate”. Can you please confirm that when banks have granted loans with variable rates, they can consider the interest rate applied as of 31/12/22?
- For STA it is detailed to map with COREP's Corporate and Retail categories, but shouldn't it be Secured by mortgages on immovable property?
- The template guidance specifies that that the scope of the «RE\_Transition\_Risk» is limited to EU countries (see section 122), which is in line with the template. For physical risk, there is no such mention (section 131) while the template also limits to EU countries. When banks indicate their top 5 countries by exposures in the “input” template, all countries still appear in the «RE\_Physical\_Risk» template instead of the 5. There seems to be a technical issue.
- Can the guidance be amended to clarify that only EU countries are in the scope of physical risk as well? If so, should be the same top 5 for both templates? If this is a case, as single table in the Input table instead of two should be sufficient, otherwise it may suggest top 5 could be different.

- While general information on EPC is available (using proxies), we would appreciate streamlining of the requirements (scope of requested portfolio) with CRR banking book ESG template 2 (EPC labels) in order to foster consistency / reconciliation and to allow best leverage from other activities of the banks
- What is the precise definition of new defaulted exposures over total exposures (questions also holds for RE\_Physical\_Risk)
- Would it be possible to specify the definitions under asset classes RRE and CRE as this is not further detailed in the guidance?
- As to the RE\_Physical\_Risk template, whilst the guidance specifies only Top 5 countries to be reported, the template covers several EU countries. Can you please confirm that banks are required to report on the Top 5 Countries?
- Are there any additional scoping details that will apply with regards to location of the collateral? For example, in the 2022 ECB CRST methodological note the following was reported: " In addition, exposures to EU counterparties where the underlying collateral is not located in the EU are not in scope. Moreover, exposures to non-EU counterparties are generally not in scope, even if the underlying collateral is located within the EU."
- Can the EBA clarify what is to be reported in the New defaulted exposures over total exposures columns? How are new defaults defined? Are these 2022 defaults? What total exposures should be used as denominator?
- Can the EBA confirm that residential guaranteed loans by an eligible property loan guarantor are in the scope of these templates?
- Banks should indicate the total amount of their exposures to real estate broken down by “EPC bucket”, meaning with a letter.
  - Is the letter to consider the one indicating the energy consumption or the one indicating GHG emissions?
  - For EPCs in UK, the level of energy efficiency (EP score in kWh/m<sup>2</sup> of collateral) corresponds to the global rating which is the “Energy efficiency rating”. Is this the score that should be reported?
  - For other countries (France, Italy, Spain), there are no global ratings, but a “Primary Energy Consumption Rating”. Is this the score that should be reported?
  - For some EPCs, the level of energy efficiency is indicated, but the EPC label is not indicated. When this level is translated into a letter, is this considered as a proxy or can it be considered as real data?
  - For EPCs indicating a score for winter and summer, what value should be taken into account?
- Under some national legislation some types of real estate assets are not subject to EPC assessment. Could a "non-eligible" line be added for each country in the RE\_Transition\_Risk template? If no, the only alternative would be to report these exposures as "unknown" but this would not reflect the fact that no EPCs are required for those exposures and would unduly suggest data availability issues attributable to banks
- It would be useful to have more details on the definition of “New defaulted exposures over total exposures (%)”
- Could you please confirm treatment of collateral in the case of multiple-collateral loans - presumably the loan exposures should be split according to the value of each collateral?

- Paragraph 129 + 137: reference is made to paragraph 36, but we do not see the link with paragraph 36 (Methodology S1 GHG emissions)
- For the percentage of defaulted exposures asked in paragraph 137, reference is made to paragraph 129, which is based on the country asset class – EPC Bucket cluster. Should this be the NUTS3 code cluster?
- In template Real Estate Risk participating banks are required to report real estate risk and climate-related information for the top 5 countries, in terms of exposure, and to split their exposures between asset class (i.e., RRE and CRE) and EPC bucket. The scope of the template is corporate and retail exposures secured by real estate, defined according to point (g) of Article 112 of the CRR, for corporate exposures, and according to point (h) of Article 112 of the CRR, for retail exposures. Under the Standardized Approach the exposure class “Secured by mortgages on immovable property” includes all loans that are secured by real estate (CRE or RRE), i.e. both the secured and unsecured part of the loan. In terms of exposure, and to split their exposures between asset class (i.e. RRE and CRE), shall banks report only all the exposures under the asset class Secured by Immovable Property or the population of the aforementioned sheets should not be done based on regulatory/COREP categorization? Could you please clarify?

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