Safe, Efficient Markets

Finance for Europe

The European Banking Authority
20 Avenue André Prothin
92400 Courbevoie
France

Subject: Public consultation: on draft templates and template guidance for collecting climate related data from EU banks[1]

The Association for Financial Markets in Europe ('AFME') and the International Swaps and Derivatives Association ('ISDA'), the 'Joint Associations' and their members ('the Industry') welcome the opportunity to comment on the EBA's draft templates for collecting climate related data from EU banks.

The Industry appreciates the EBA's efforts in designing and developing draft templates to collect climate-related and financial information on credit risk, market and real estate risks for this important exercise. The industry is confident that the present consultation and the constructive feedback we provide in this comment letter will also help the EBA to further develop these templates and collate data that will be informative on the climate-related risks within the banking sector.

Should you have any queries regarding the response, please do not hesitate to contact us.

Yours sincerely,

Jouni Aaltonen
Managing Director
Association for Financial Markets in Europe

Stelios Antouera
Assistant Director
International Swaps and Derivatives Association

[1] https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Consultations/2023/Consultation%20on%20draft%20templates%20for%20collecting%20climate%20related%20data%20from%20EU%20banks/1061221/Template%20guidance%20for%20the%20one-off%20data%20collection.pdf

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1. General

1.1 Materiality Threshold

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.

Banks further request clarification if the materiality threshold applies at both asset class and Nomenclature of Economic Activities (NACE) sector ie. Reporting of Bond positions (not bond + equities) in NACE sector A is not required where the balance is less than 0.05% of bank's total assets.

- Does the materiality threshold also apply to the EURO STOXX 50 names? 39 companies from the EURO STOXX 50 are included in the templates for materiality coverage and any can be selected among the top 15 counterparties with climate-relevant exposure under NACE.
- Does data for the EURO STOXX 50 have to be provided, even if the respective sector does not reach the materiality threshold?
- Do banks have to report the same absolute emissions information for these companies in both Credit Risk (CR) and Market Risk (MR) templates?
- If the company is not a client, do banks have to report information about it? (i.e., absolute emissions or energy consumption)?
- Can you please confirm if the information requested of the EURO STOXX 50 companies is at the last parent level and the information requested for the top 15 is at counterparty level?

1.2 Disposals and portfolio run downs

Some banks have loan books in run down (or disposal) where there has been no origination since 2015. Balances exist as at 31 December 2022 but will fall away in entirety during the stress period that the ECB intends to cover. Also, if the ECB intends to stress using a static balance approach, this will incur a disproportionate stress for a loan book in run down.
Can the EBA confirm that, in instances where a bank has disposed of an entity after 31st December 2022 and before the submission date, across the various templates, exposures disposed of can be ignored? For example, some top exposures reported in the "Top_Counter" template could no longer be in the books of the reporting bank at the date of submission. In addition, it is likely that information required in the Top_Counter template will not be available post disposal.

The industry recommends that entities and portfolios that are sold/run-down during the period should be excluded from the scope. Can the EBA please clarify how this process can work?

1.3 Data Sourcing - concerns around data availability as some data points are not sourced internally.

It is noted the requested granularity of Energy Consumption reporting within the template is a new requirement and inconsistent with future disclosure obligations. This limits the availability of external data in the market that banks can source for the EBA exercise. In addition, such information, should it exist, is generally disclosed at the parent entity level, in comparison to the subsidiary level metrics the EBA exercise requires. Further, we note that only one private vendor has been identified to date who could provide the required granular data. This may appear anti-competitive, should all banks be required to use the same vendor for the EBA exercise.

<u>The industry proposes:</u>

- Energy Consumption fields should be amended to renewable vs non-renewable to be in line with existing/future disclosure obligations.
- The EBA should provide detailed guidance on how to calculate proxies in the absence of such data in the market, including parent vs subsidiary data availability. In addition, guidance is required on how banks are expected to proceed in the absence of both actuals and proxies.

1.4 Data Structure

There are certain fields in the data collection template that should be common or homogenous across all participating banks. For example, in the CR_Top_Counterp tab, the requested information on the EURO STOXX 50 and in particular in columns I and J and R – AK, should ideally remain the same regardless of which financial institution is submitting the data. Therefore, we request for these cells to be greyed out and pre-populated by the EBA.

1.5 Data – Coverage Rates

Are there any expectations in terms of data coverage rates? Is the EBA expecting values for all items? This is most notable for the newer elements such as Energy Consumption by Type and Net Zero reduction target (2030). More broadly, it would be good if the EBA provides suggestions on potential sources for data not within the current disclosure mandates.

1.6 Scope – NACE

We would like to receive clarification on the following template guidance points.

1. Paragraph 18. "*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)*".
   Is there a risk that the same company will be mapped to different NACE sectors by different participating banks? How will the EBA manage data inconsistencies?

2. Paragraph 68. "*Please notice that if a bank's exposures to an industry (i.e., NACE 2 sector) constitute less than 0.05% of the bank's total assets reported in FINREP (F01.1), the bank is not required to report the information related to this sector*".

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, then does this information need to be included to the line "Other"?

3. As per paragraph 24 *" The NACE Code shall be selected based on the principal activity*." Can the EBA clarify whether the selection of NACE code should be based on the principal activity of the parent or counterparty level?

EBA guidance is required to ensure consistency.

1.7 Template Structure / Format - NACE

The industry queries why the breakdown of NACE codes is different in the templates, e.g., template "CR_Top_Counterp" vs. template "CR_Aggregated_Data"? It would be helpful if the NACE breakdown in the templates were consistent.

1.8 Template Structure / Format

We have identified formatting issues with the data collection template.

1. There are missing rows across all tabs. This should be revised in the final template.

2. Some input cells are currently locked. For example, in the Input template cell C10 - banks were not able to select a name from the drop down list. Additionally, in CR_Top_Counterp, banks cannot input data into column R. These cells should be unlocked / unprotected accordingly.

1.9 Template Guidance - FINREP / COREP References

The industry requires clarification how to identify the top 5 countries in terms of income. We assume that "income" is defined as the sum of "interest income" and "fee and commission income". In addition, we understand that for this calculation financial reporting standards (FINREP) (paragraphs 70 and 71) total amounts as defined in FINREP 2 row 0010 column 0010 and row 0200 column 0010, can be used.
Can the EBA 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?
The guidance should provide exact FINREP references similar to what it is already providing for exposure value, which is 09.01.a column 075 (paragraph 29). We request to provide FINREP references for the following:

> 50. Total assets are defined as the figure reported by the obligor in the Balance Sheet (in € million). In addition, for further clarification should the amounts be based on Total Carrying Amount or Total Gross Carrying Amount?
>
> 51. Total revenues are defined as the figure reported by the obligor in the Income Statement (in € million)

52. Total operating expenses are defined as the figure reported by the obligor in the Income Statement (in € million)

53. Total debt is defined as the figure reported by the obligor in the Balance Sheet (in € million)

It would be helpful to better specify the scope of application. Should common reporting framework (COREP) portfolios be involved? Should default positions be included in the standard? How should non-financial counterparties be identified, excluding financial parent companies of the group?

1.10 Data - Financed Emissions Information

The industry notes the following difficulties and recommendations with this data request:

- Difficulties in obtaining both top client template and aggregated emissions intensity by sector and country. This will result in data gaps and need to estimate emissions where not available.
- Differentiation between credit risk and market risk products/portfolios is needed. Financed emissions are required both in CR and MR templates (and it is challenging to assign emissions to trading activities).
- Frontloading required information for the whole portfolio not reported so far in other reports (emissions information not required in Pillar 3 ESG until June 2024)
- Minor issue: Partnership for Carbon Accounting Financials (PCAF) version needs to be clarified. A new version has been disclosed in 2023, but it is still unstable.
- Different granularity/split of emissions scopes applies to Pillar 3, Solvency stress test and Climate stress test.
- When banks reporting absolute emissions in templates CR/MR_top_counterp (Paragraph 34, 37 and 40 and 86, 89 and 92), and MR_ Aggregated data (Paragraph 116-118), the priority is to include obligor's actual reported emissions (depending on the answer to bullet 1), or if banks cannot 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 and 2) Average emissions per assets.
  Banks using the second methodology could result in divergence of reporting due to the approach being based on the exposure the bank has with the obligor: *Counterparty's financed emissions (tCO2e) = Sectoral average emissions by sector and geography per M€ of assets in a sector (tCO2e/M€) * Counterparty's outstanding (M€).* Can it be confirmed which methodology should be used to report estimated emissions?

There is no current or future disclosure obligation to report CO2 emissions of Market Risk counterparties. It is further noted these counterparties are typically (but not always) Financial Institutions which do not form part the top 22 climate intensive NACE sectors.

1.11 Scope – Emissions

Based on the feedback at the workshop, is it correct that only absolute emissions data would be necessary, and participants would NOT need to calculate emissions intensity? In the aggregated (CR and MR) risk templates, banks are asked to calculate emission intensities. Can the EBA confirm what type of emissions data is required for the aggregated templates?

1.12 Timelines of EBA exercises

Our concern revolves around the timelines for submission of the template (once approved) and the submission of the next round EU-wide EBA stress tests/SREP stress tests. We would recommend extending the timeline for the first submission of all the data templates until the end of January, as submission by 15th January would require all the work to be completed before the Christmas period. It would also help incorporating FAQs into the first submissions. Clarity is also required regarding the sequence and completeness of submissions during the data collection period. The industry recommends staging the submissions to allow more time for collecting data for the MR and CR aggregated templates.

1.13 Quality Assurance

It would be helpful if the EBA can clarify whether a pre-validation tool like STAR Portal of EU-Wide Stress Test will be available to assist banks on data quality assurance?

Can the EBA also publish the rules and logic for the Data Quality Checks ahead of submissions? Banks can then address these ahead of the submission deadline and limit the amount of re-submissions that may be required.

2. Credit Risk (CR)

2.1 Scope of Exposures

Does the scope of the exposures include both at cost and fair value positions (similar to CR_REA in the biannual EBA Stress Test)?

It would be good the EBA to clarify, as in the 2022 ECB CRST this excluded fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVPL) positions. This clarification is not included in the guide. Thus, the base assumption would be that positions include all, both at amortised cost and at fair value.

2.2 Aggregated data - Templates/ Guide - paragraph 29, 30 and 31

- We understand that the scope of this template is corporates. Can the EBA confirm that exposures to be reported are those reported on lines 0070 of COREP C 09.01 and 0030 of COREP 09.02?
- Exposure at default (EAD) - Is it correct to assume that as indicated in this paragraph, the internal ratings-based (IRB) EAD to be reported must be pre- credit conversion factor (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 stress test (ST) exercises and to guarantee alignment with common reporting (COREP), EAD to be reported should be post CCFs
- Paragraph 30 and 31 - starting point probability of default (PD) and starting point loss given default (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.
- 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 risk exposure amount (REA) is after substitution?

The industry has two questions/proposals that should be considered:

1. 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.
2. In order to keep the coherence between the requested regulatory parameters for IRB portfolios and those reported for standardised (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?

2.3 Data - Sourcing (Top Counterparties) - Column AA-AD - Guide Par 34, 37 and 40

- Preliminary assessment with external vendors indicates that the following data attributes coverage is significantly low. ‘Energy consumption from Oil (KWh/Year)’, ‘Energy consumption from Gas (KWh/Year)’, ‘Energy consumption from Renewable Sources (KWh/Year)’, ‘Energy consumption from Electricity (KWh/Year)’.

- According to the template companies should be reported together with a corresponding legal entity identifier (LEI) code. To improve internal matching, are other / additional unique company identifiers possible?
- Can the EBA confirm that for EURO STOXX 50 groups, all information is to be provided on a consolidated basis (including greenhouse gases (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)?
  The industry understands that for EURO STOXX 50 companies, no exposure should be reported in the top 15 (paragraph 20 of template guidance). Does it apply to subsidiaries of these groups (in particular if only parent company exposure should be reported in the EURO STOXX 50 "Yes" lines)?
- Can the EBA confirm that the top 15 exposures should be reported by obligor (and not by business group)? If this is the case, can the EBA confirm whether GHG and energy consumption data should be reported for the group to which the obligor belongs or for the obligor? Can the EBA confirm what methodology should be used to approximate obligor level GHG emissions data from group level to obligor level, when obligor level data is unavailable? 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 centres or subsidiaries).
- In some industries such as aviation, financing can be provided to special purpose vehicles (SPV) (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?
- Paragraph 33 of the template guidance does not specify how remaining maturity should be calculated. Can the EBA confirm that this is the average 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"? Paragraph 31 is not explicit on how LGD starting point should be calculated.
- The title of the template indicates "Top 10 counterparties". Can the title be amended to "Top 15"?
- Can the EBA 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.

It would be good if the EBA could provide examples of sources.

2.4 Data - Emissions Intensity Calculation and NACE sectors - Paragraphs 63-65

- Will there be more guidance on calculating emissions intensity? For example, what if not all emissions data is available for a sector? 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?
- "CR_Aggregated_Data", the current template also requests S1/2/3 GHG emissions intensity for the NACE codes which are deemed not particularly affected by climate change ("Other (NACE sectors J, K, M-U))". We suggest that only sectors deemed affected by climate change are in scope as little value-added stems from other sectors for the purpose of the exercise.

- Regarding the financed emissions to be reported in "Aggregated data" templates, can you please clarify how should we calculate financed emissions in case we do not have obligors' revenues?
- Does the exclusion of financial holdings applicable to CR_Top_Counterp also apply to CR_Aggregated_Data?

Could we refer to 2022 ECB CRST guidance/examples?

2.5 Data - Net Zero Reduction Target - (Top Counterparties)

As per paragraph 49, "*If not available on the required time horizon (8-y) participating banks can use a proxy, developed leveraging internal methodology*". Will there be more guidance on proxies and when these should be used? Can the EBA provide more clarity on what would be considered 'expected' or provide some examples?

2.6 Data - Top counterparty

1. Can the EBA confirm that Total Debt to be reported in ColNum 32 is gross debt reported in liabilities and not net debt (net of cash).

2. Can the EBA clarify the definition of financial holdings to be excluded from the Top_Counter template under section 18 of the guidance? We recommend EBA to provide examples of what constitutes a financial holding company in this context.

2.7 Scope - CR_Aggregated_Data

As per paragraph 54, "*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*". However, in the template there is a row for "Other (NACE sectors J, K, M-U)" which suggests that the templates would include financial counterparties under NACE K, so the guidance seems inconsistent.
Can the EBA confirm if the template is meant to incorporate all corporate exposures, or just non-financial obligors in which case would exclude NACE sectors K?

3. Interest Income and Fee and Commission Income (II_FC)

3.1 Scope

In terms of geographical extent, the industry has the following questions that should be clarified in the template guidance:

1. Is the geographic split based on customer origin, HQ locations or legal criteria? Other?
   Is the perimeter COREP's SME and non SME corporates? Or FINREP's NFCs?

2. 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)?

3. 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?

4. Column 2: What kind of commissions should be included in this column)e.g. 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/…)?

5. 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?

4. Market Risk (MR)

4.1 Data exposures – Top 15 counterparties

The template requests banks to determine the top 15 counterparties. As per the template guidance, "*Banks should map (the exposures to) the issuer to one single sector based on its principal activity*", which means that participating banks are required to report issuer exposures.
Can the EBA confirm that the "MR_Top_Counterp" template pertains to issuer exposures, as opposed to counterparty exposures (per the template title)?

In addition, we believe exposure is expected to be the sum of market value of all (equity and bond) positions with the counterparties, similar to the requirements of the MR_CCR template of the EBA Stress Test. Can you please confirm what exposure should be used to determine the top 15? Is it total exposure or exposure to bond and equity products or is this another criteria? (Paragraph 73 Template)

4.2 Data – Notional, Fair Value and Sensitivity information

We understand that the request to submit exposure information, i.e., notional and fair value pertains only to bonds and equity exposure respectively (MR_Top_Counterp - columns 6 - 7). In addition, we understand that risk sensitivity information is applicable only to hedging instruments (MR_Aggregatred_Data - columns 30 – 32).
Can the EBA confirm that the industry's understanding is correct?

4.3 Data - Notional and Average Maturity

For measures such as Notional and Average Maturity for debt instruments including the associated hedging instruments, we believe that measures should be reported on a net basis (as per template guidance - Paragraph 82).
We request clarity from the EBA on whether the calculation should be gross or net? This would be particularly important to clarify in the case where a firm may have offsetting positions across the tenor structure.

4.4 Data - Duration and Maturity

For template MR_Top_Counterp, the guidance requires reporting of duration in years for Debt Securities and remaining maturity for Fair Value positions for the top 15 counterparties of each NACE sector.

Can the EBA confirm how to calculate the remaining maturity and duration metrics where there are multiple positions with the same counterparty?
We note that the MR_Aggregated Template guidance requests the use of a weighted approach. Can this weighted approach also be applied in the MR_Top_Counterp template to report duration and maturity?

4.5 Data - Fair value

We seek clarity whether the fair value impacts of equity index or credit index derivative positions (e.g., referencing S&P 500) should 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 derivatives (e.g., options on EURO STOXX 50 etc.) be allocated to NACE sectors if not reported separately?

4.6 Data - Emissions

The template requests publicly available information on various companies. If the requested emissions in templates "CR/MR_top_counterp" refer to actual reported emissions (scope 1, 2 and 3) by obligors, then all banks should provide same data in this column.

In addition, we believe that the climate **data** requests will be onerous. Not all issuers publicly disclose this data.

We request clarification from the EBA as the industry's concern is that asking multiple institutions to report on metrics for other companies may result in a divergence of information reported and also unnecessary use of resources across multiple institutions which can be avoided. Thus, our recommendation is that this data may be better sourced centrally by the EBA or via a single third party.

4.7 Data - Emissions Methodology

When banks reporting absolute emissions in templates MR_top_counterp (Paragraph 34, 37 and 40 and **86, 89 and 92**), and MR_ Aggregated data (Paragraph **116-118**), the priority is to include obligor's actual reported emissions or if banks cannot obtain actual reported emissions the request is to estimate them according to the two identified PCAF methodologies: 1) Average emissions per revenues and 2) Average emissions per assets.
Banks using the second methodology could result in divergence of reporting due to the approach being based on the exposure the bank has with the obligor. Can the EBA confirm which methodology should be used to report estimated emissions?

4.8 Data scope

1. 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 trading intent.
   Typically, large banks aggregate credit exposures across products such as bonds and credit default swaps (CDS) for risk management purposes. In the absence of further guidance, there may be inconsistent interpretations, i.e., some banks may submit bond exposures in isolation and some may submit aggregate exposures across credit products. Our recommendation is to utilize the latter approach as it provides a risk appropriate view. Submitting just bond exposures (especially for large banks) may lead to a significant overstatement as it would not take into account offsetting exposures arising from other products like CDS.
   Could the EBA confirm that the scope of the market risk template covers all equity and corporate bond positions (including derivatives directly related to bond/equity exposure in scope) under full or partial fair value measurement which are held with a trading intent?

2. The industry seeks clarity on the inclusion of certain instruments, which will help with the preparation for this exercise:
   i. Are the back-to-back trades relevant for the market risk templates?
   ii. Are the CDS hedges to XVA in scope for this exercise?
   iii. Does the materiality threshold of 1% apply to the EURO STOXX 50 names?

3. This exercise appears to be defined in a manner comparable to the ECB climate stress test of 2022. We request clarity from the EBA on the below items:
   i. As per Paragraph 73, 109, the scope of this exercise is all corporate bonds and stocks in the trading book (FVPL). Does this mean that Banking book (BB) is out of scope (including BB FVPL positions)?
   ii. Where we have a bond which is (partially) hedged by a CDS, then the offsetting benefit may be taken into account. Can the EBA clarify whether banks are required to capture purely synthetic positions (e.g., CDS vs CDS) or index positions?
   iii. Similar comment for equity: we may recognize the benefit of an Equity Derivative but are not required to capture derivative-only positions, or index positions.

4.9 Definition of Hedging instrument

The template guidance does not define what is a hedging instrument. Can you please provide a precise definition for a hedging instrument?
The definition of hedges is dependent on the desk activity: a market making desk (case of some banks for equity) may see client trades naturally offsetting their risks and would search to reduce any exposure with another client's need. Any residual exposure aims at serving the expected near term demand of clients. In this case, how should 'hedging instruments' be identified? Can you also please confirm that internal hedges can be excluded?

4.10 Data Sensitivities

The template requests to populate first order sensitivity of the hedging instrument to Interest Rates, Credit Spread and Equity. As per the guidance, this information is defined as the change in the price of the hedging instrument based on a parallel shift of one basis point in the relevant risk-free curve and credit curve and for equity as the change in the fair value of the hedging instrument in response to a 1% change of the risk factors.

Our understanding, which we believe is in-line with prior ECB exercises, is that this should be an upward shift. We request the EBA to confirm if this assumption is correct?

4.11 Data – MR_Aggregated

As per paragraph 109 in the template guidance, "banks are required to report market risk and climate-related information aggregated by the climate-relevant NACE 2 sectors and asset class (i.e., bonds or equities). 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"
However, the EBA's public hearing slides (slide 16) note that aggregated data for the 5 top countries should be reported.

In addition, the MR_Aggregarted_Data template indicates that total positions should be reported.

We request clarification on the data required to be reported in the MR_Aggregated tab.

5. Real Estate (RE) Risk

5.1 Data – Collection – Guide paragraph 122 and 131

The following issues should be clarified in the template guidance:

- Initial challenges identified in obtaining some Real Estate related data points (e.g. 'EPC').
- Can the EBA clarify that the selection of the top 5 countries should be based on CRE and RRE portfolios combined?
- If, for a given bank, the top 5 countries for CRE and RRE includes a non-EU country, does it means that only 4 countries should be reported in the template?
- In the methodology, for the physical template it is not specified if it is only EU countries (as it is in the Transition template description). According to "input" template it seems that it is for EU countries only. If so, should be the same top 5 for both templates?

5.2 Reference (Transition / Physical Risk)

We kindly ask the EBA to confirm reference in definition in paragraph 129: "New defaulted exposures over total exposures (%) is defined as the percentage of non-performing exposures, as defined in paragraph 36, out of the overall exposure value included in the country-asset class-EPC bucket cluster". Paragraph 36 refers to methodology for estimation of S1 GHG emissions. Can you please share more details of the definition of "New defaulted exposures over total exposures (%)"?

5.3 Reference (Transition Risk)

Does this refer to the country of incorporation or the country of risk?

If the top 5 countries are identified by exposure, should the country coincide with the location of the exposure or with that of the property?

5.4 Reference & Scope (Physical Risk)

Does this refer to the country of incorporation or the country of risk? 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: " 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."
When countries are selected in the Input table, all countries still appear in the tab RE_Physical_Risk. There seems to be a technical issue.
The guidance specifies that countries in scope for transition risk are EU countries (paragraph 122), which is in line with the template. For physical risk, there is no such mention (paragraph 131) while the template also limits to EU countries. Can the guidance be amended to clarify that only EU countries are in the scope of physical risk as well?

5.5 Scope (Transition / Physical Risk)

The industry understands that the scope is the same for both physical risk and transition risk in terms of geographies (EU countries) and portfolios (corporate and retail exposures secured by real estate). If this is the case the top 5 countries will be the same, in which case the industry would recommend having a single table in the Input table instead of two, which suggests top 5 could be different.

5.6 Data – EPC (Transition Risk)

For share of proxies out of total energy performance certificates (EPC) data (%), can you please clarify what measure is this based on? E.g., property count, property value or exposure.
While general information of EPC is available (use of proxies is needed here!), we would appreciate a (partly) 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.

5.7 Template – COREP

For STA it is detailed to map with COREP's Corporate and Retail categories, but should not it be secured by mortgages on immovable property?

5.8 Scope – Approach to Collateral Valuation (Transition / Physical Risk)

Can the EBA 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?

Could we refer to 2022 ECB CRST guidance: "In the case of multiple-collateral loans, the loan exposures should be split according to the value of each collateral."

5.9 Real estate – Transition and physical risks

Can the EBA confirm that residential guaranteed loans (prêts cautionnés) by an eligible property loan guarantor are in the scope of these templates?

5.10 Real estate – Transition risk

Under 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? The only alternative would be to report these exposures as "unknown" but this would not reflect the fact that for these exposures EPCs are not required, as opposed to not available. This would also unduly suggest data availability issues.

- Industry recommends that property not subject to EPC should be reported 'EPC not required' additional line.

- A broader forward looking question is also how exposures in 3rd countries should be considered in the future (EPC not universal).
- Treatment of such exposures (other than ‘unknown’) should not be penal as it is due to national policy decisions.

5.11 Real estate – Transition and physical risks

Can the EBA confirm that residential guaranteed loans (prêts cautionnés) by an eligible property loan guarantor are in the scope of these templates?

5.12 Real estate – Transition risk

Under 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? The only alternative would be to report these exposures as “unknown” but this would not reflect the fact that for these exposures EPCs are not required, as opposed to not available. This would also unduly suggest data availability issues.

6. Cross-Cutting items

6.1 Scope – IFRS9 (CR Top Counterp / CR Aggregated Data / RE Transition Risk / RE Physical Risk)

If a bank does not have an IRB model, can the bank use the parent/group IRB model PD if available? If not, is the IFRS9 PD the one inferred by the Dec-2022 IFRS9 actuals? (i.e., with the approved weighted of IFRS9 scenarios and post-qualitative adjustments).

6.2 Data – Sourcing (CR Top Counterp / MR Top Counterp)

How are credible independent bodies identified when sourcing estimated emissions data? Will the regulator provide an example or list of credible independent/external bodies? Do we have to report Top 10 or Top 15 counterparties? The headlines of both templates ("Top 10") are inconsistent with the guidance and the number of lines (both "Top 15").

We suggest where LEI will be provided within templates CR Top Counterp and MR top Counterpart, that EBA may be best to source CO2 Emissions directly. This would ensure methodology is identical across banks and thus ensure the most accurate scenario analysis results for a top down exercise.

6.3 Data – Quality & Sourcing (CR Top Counterp / MR Top Counterp)

Are firms required to provide actual data or estimates? When should a bank estimate this fields vs leaving it blank? Are there recommended sources / estimate approaches to obtain this information? 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 that there is no need for the banks to report this information.

6.4 Data – Approach to Net Zero Reduction Target (CR Top Counterp / MR Top Counterp)

How should firms populate the Net zero reduction target field if emissions targets are reported by carbon intensity vs absolute emissions?
There are no uniform standards on how to set net zero reduction targets and, in addition, firms usually only specify targets for specific sectors. Please clarify approach banks should apply.

We request that detailed explanation is shared for the EBA's requirement to report counterparty's net zero targets. For example,
- what targets specifically (operating emissions, financed emissions etc)
- where counterparties have targets by sector how should this be consolidated to one target
- where counterparties do not have such targets or the required data cannot be found, detailed guidance on a basis to calculate proxy is required

6.5 Scope – NACE (CR Aggregated Data /MR Aggregated Data)

1. What is the logic behind splitting the NACE codes in 35.1 and 35.1.1, e.g., in template ""CR_Aggregated_Data"?

2. Does total assets include derivatives? (Derivatives were excluded in the ECB 2022 climate risk stress test)

3. In the data collection template (for both Credit and Market Risk "Aggregated Data") all NACE sectors (A – U) have to be disclosed. However, the template guidance for both Credit and Market Risk "Aggregated Data" (paragraphs 54 and 109 respectively) indicate that only corporates are in scope. Can the EBA confirm whether NACE sectors O (Government), K (Financial) and U (European Union) can be excluded?

6.6 Scope – Energy Consumption Metrics (CR Top Counterp / MR Top Counterp)

It would be helpful to know if the metrics on energy consumption can be aligned to mandatory SFDR PAI # 5 by grouping the 5 separate energy consumption metrics in, e.g., columns AA through AE in template "CR_Top_Counterp" into just two: (i) Energy consumption from renewable sources (KwH) and (ii) Energy consumption from non-renewable sources (KwH) in order to maximise data coverage.

6.7 Data – Absolute Number Sourcing (CR Aggregated Data / MR Aggregated)

Regarding S1, S2, and S3 emissions & energy consumption, it is unclear what methodology should be used to source absolute numbers. Can the EBA specify and provide examples on how to source absolute numbers?

[(Corporate A Exposure / Total Exposure) * Corporate A Scope 1 Emissions]?

6.8 Data – Weighted Average Calculation (CR Aggregated Data / MR Aggregated)

Regarding S1, S2, and S3 emissions & energy consumption, it is unclear what methodology should be used to calculate weighted average. Can the EBA specify and provide examples on how to calculate weighted average.

[(Corporate A Exposure / Total Exposure) * (Corporate A Scope 1 Emissions / Net Revenue)]?

6.9 Data – Approach to Energy Consumption from Electricity (CR Top Counterp / MR Top Counterp)

How should "Purchased Electricity" be treated, i.e., how can firms ensure that this reflects electricity without renewables?

6.10 Data – Roll-Up Logic vs Data Availability (CR Top Counterp / MR Top Counterp)

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?

6.11 Data - Net Zero Commitment Information (CR Top Counterp / MR Top Counterpart)

Availability of net zero commitment information in CR/MR templates.

6.12 Data - Financial Information (CR Top Counterp / MR Top Counterpart)

It is unclear to us what is difference between the information to be reported in CR and MR templates.