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Consultation Paper

Draft Guidelines on the appropriate subsets of sectoral exposures to which competent or designated authorities may apply a systemic risk buffer in accordance with Article 133 (5)(f) of Directive 2013/36/EU

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1. Responding to this consultation

The EBA invites comments on all proposals put forward in this paper and in particular on the specific questions summarised in 5.2.

Comments are most helpful if they:

- respond to the question stated;
- indicate the specific point to which a comment relates;
- contain a clear rationale;
- provide evidence to support the views expressed/ rationale proposed; and
- describe any alternative regulatory choices the EBA should consider.

Submission of responses

To submit your comments, click on the 'send your comments' button on the consultation page by 12.05.2020. Please note that comments submitted after this deadline, or submitted via other means may not be processed.

Publication of responses

Please clearly indicate in the consultation form if you wish your comments to be disclosed or to be treated as confidential. A confidential response may be requested from us in accordance with the EBA's rules on public access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the EBA's Board of Appeal and the European Ombudsman.

Data protection

The protection of individuals with regard to the processing of personal data by the EBA is based on Regulation (EC) N° 45/2001 of the European Parliament and of the Council of 18 December 2000 as implemented by the EBA in its implementing rules adopted by its Management Board. Further information on data protection can be found under the Legal notice section of the EBA website.

2. Executive Summary

According to Article 133 (6) CRD V, the EBA is mandated, after consulting the ESRB, to issue guidelines by 30 June 2020 on the appropriate subsets of the four sectoral exposures of the systemic risk buffer (SyRB), as defined in the same article. With the introduction of a sectoral SyRB, national competent or designated authorities (relevant authorities) can use the SyRB to target systemic risk in a broad sense (SyRB for all exposures) as well as to target systemic risk in specific sectors or subsets of these sectors.

The objective of the guidelines is to set a common framework to harmonise the design of the appropriate subsets of sectoral exposures to the application of a SyRB, facilitating a common approach throughout the EU, but also supporting reciprocation of the SyRB measures between Member States. These guidelines are meant to support relevant authorities in defining the specific subsets of sectoral exposures, to which the SyRB may be applied.

The draft guidelines recommend a common framework where relevant authorities can define subsets specific to their needs. This is done by employing three dimensions: debtor or counterparty sector, type of exposure and type of collateral. In addition, if deemed appropriate, justified and proportionate when targeting systemic risk, the relevant authorities may supplement these dimensions with three sub-dimensions: economic activity, risk profile and geography. The guidelines include detailed definitions of elements used in each dimension and sub-dimension, along with examples of application.

A pre-condition when defining a subset of sectoral exposures in the application of a sectoral SyRB is its systemic relevance according to a qualitative and quantitative assessment conducted by the relevant authority. The draft guidelines recommends three criteria to be used in such assessment: size, riskiness and interconnection.

The guidelines also highlight how the enhancements in the scope of the SyRB introduced under CRD V (the ability to use multiple SyRBs and the introduction of domestic sectoral SyRBs targeting specific sectors or subsets of exposures, which was made necessary due to the amendment in CRD V where pillar 2 capital requirements could no longer be used for macroprudential purposes) have increased the flexibility of the SyRB, but have also brought potential challenges. For this reason, the relevant authority should avoid inconsistent uses of instruments and unwarranted interactions by ensuring that other active macroprudential measures are taken into account when calibrating and activating the sectoral SyRB. With this in mind, the common framework presented in these guidelines tries to ensure a harmonised yet flexible application of the sectoral SyRB. The pre-determined dimensions should also ensure that this flexibility does not yield an excessive degree of complexity and difficulty of reciprocation.

Any relevant authority shall apply the sectoral SyRB in a way that strikes the right balance between the need to address the relevant systemic risk stemming from sectoral exposures and the importance of not becoming too complex. Overall, the application of a sectoral SyRB lies between the costs such measures can bring and its benefits to financial stability in the EU.

According to Article 16(3) of Regulation (EU) No 1093/2010, competent authorities must notify the EBA as to whether they comply or intend to comply with these guidelines, or otherwise with reasons for non-compliance, by ([dd.mm.yyyy]).

Next steps

The guidelines will be translated into the official EU languages and published on the EBA website. The deadline for competent or designated authorities to report whether they comply with the guidelines will be two months after the publication of the translations. The guidelines will apply from 29 December 2020.

3. Background and rationale

1. As a step towards completing the European-post crisis regulatory reforms, the revised EU capital regulation for banks ("the banking package") was adopted in 2019 to reinforce banks' ability to withstand potential shocks. This resulted in the revision of existing capital requirements as well as the introduction of new rules including outstanding elements from internationally agreed standards.

2. In CRD IV, macroprudential tools were introduced to strengthen the resilience of the banking sector against future financial crises. One of these was the systemic risk buffer (SyRB). The purpose of the tool was to be an instrument that could be applied to both all or a subset of banks in order to prevent and mitigate structural systemic risks of a long-term, non-cyclical nature inherent in the balance sheet of European banks.

3. Four years later, building on the experience gained on the use of the macroprudential toolkit, the CRD V included targeted changes to the macroprudential provisions. The new banking package turned Pillar 2 into a purely microprudential tool, clarifying its institution-specific nature and further streamlining its application. This change was offset by increased flexibility in macroprudential capital buffers, including in a more targeted use of the SyRB.

4. The SyRB can now be applied in a sectoral manner. At the same time, the reference to "long term non-cyclical" systemic risks was removed from the SyRB's definition and a clear distinction of roles between the SyRB and other capital buffers (the CCyB and the G-SII/O-SII in particular) was outlined in CRD V.

5. The aim of the sectoral SyRB, as a macroprudential tool, is to allow authorities to target specific systemic risks that are inherent in banks’ exposures at a sectoral level. Notwithstanding, the sectoral SyRB should not be treated as a micro-prudential tool.

6. The sectoral SyRB is considered a targeted tool. Compared to broader instruments, targeted tools might be more effective as they target only the specific risk and relevant exposures, minimizing unintended side effects and improving cost-effectiveness as well as banks' capital allocation. They also increase the incentive for credit institutions to reduce the targeted exposures. For the same reasons, targeted tools can also reduce inaction bias.

7. CRD V defines four specific high-level sectoral exposures to which a SyRB can be applied to:

    i) all retail exposures to natural persons which are secured by residential property;

    ii) all exposures to legal persons which are secured by mortgages on commercial immovable property;

iii) all exposures to legal persons excluding those specified in point (ii);

iv) all exposures to natural persons excluding those specified in point (i);

8. The EBA is mandated, after consulting the ESRB, to issue guidelines by 30 June 2020 on the appropriate subsets of exposures to the four sectoral exposures referred above to which the competent or the designated authority may also apply a systemic risk buffer.

9. Three common characteristics can be drawn from the four high-level sectoral domestic exposures mentioned in paragraph 7: exposure, debtor and collateral. As any subset of exposures subject to these guidelines cannot be broader in scope than any of the four sectoral exposures, any subset must at least include these three characteristics.

10. When activating a SyRB (or sectoral SyRB), the relevant authority must include in the notification of the measure to the ESRB[1] the following explanations among other requirements[2]:

i) Description of the macroprudential or systemic risk the buffer is intended to target,

ii) The reasons why such risk threatens the stability of the financial system, and

iii) The assessment of why the activated SyRB (or sectoral SyRB) is considered to be effective and proportionate to mitigate such risk.

11. The SyRB requirement of a credit institution is calculated as the sum of any SyRBs applied on all exposures (in a Member State and/or a third country) plus all SyRBs applied on to specific sectoral exposures or any subset of these sectoral exposures. Credit institutions must maintain the combined SyRB requirement with Common Equity Tier 1 capital.

12. A combined SyRB rate above 3% applied on any set or subset of exposures subject to one or more SyRBs requires an opinion from the Commission, while a combined SyRB rate above 5% applied on any set or subset of exposures subject to one or more SyRBs requires an authorisation[3]. At the same time, the SyRB is cumulative with the O-SII or G-SII buffer rates. When the sum of an O-SII or G-SII buffer rate and of a combined SyRB rate results in a combined buffer rate higher than 5%, an authorisation from the Commission is also required[4].

13. The approach taken in these guidelines when defining subset of exposures for the application a sectoral SyRB leans on the following three principles:

[1] Where the institution to which one or more systemic risk buffer rates apply is a subsidiary the parent of which is established in another Member State, the competent authority or the designated authority shall also notify the authorities of that Member State.

[2] Article 133(9) of Directive 2013/36/EU.

[3] Article 133(11) and (12) of Directive 2013/36/EU.

[4] Article 131(15) of Directive 2013/36/EU.

- Systemic relevance - The risk – which the chosen subset of exposures is subject to – must be of a systemic nature in the country of activation.

- Flexibility – To target the appropriate subset of exposures and their systemic risks considering the heterogeneity of the real estate markets, banking sectors and other economic sectors across EU.

- Consistency across jurisdictions – SyRB application should be consistent across the EU; thus a degree of harmonisation is needed, especially for reciprocation purposes by other Member States.

14. Taking into account the three principles above, the application of a sectoral SyRB should, where possible, avoid excessive complexity. This would ease implementation and monitoring of the instrument as well as clear communication.

4. Draft guidelines

EBA/GL-REC/20XX/XX

30 June 2020

Draft Guidelines

on the appropriate subsets of sectoral exposures to which competent or designated authorities may apply a systemic risk buffer in accordance with Article 133 (5)(f) of Directive 2013/36/EU

1. Compliance and reporting obligations

Status of these guidelines

1. This document contains guidelines issued pursuant to Article 16 of Regulation (EU) No 1093/2010[5]. In accordance with Article 16(3) of Regulation (EU) No 1093/2010, competent authorities and financial institutions must make every effort to comply with the guidelines.

2. Guidelines set the EBA view of appropriate supervisory practices within the European System of Financial Supervision or of how Union law should be applied in a particular area. Competent authorities as defined in Article 4(2) of Regulation (EU) No 1093/2010 or, where different, designated authorities referred to in Article 133(3) of Directive 2013/36/EU[6], to whom these guidelines apply should comply by incorporating them into their practices as appropriate (e.g. by amending their legal framework or their supervisory processes), including where guidelines are directed primarily at institutions.

Reporting requirements

3. According to Article 16(3) of Regulation (EU) No 1093/2010, competent or designated authorities must notify the EBA as to whether they comply or intend to comply with these guidelines, or otherwise with reasons for non-compliance, by ([dd.mm.yyyy]). In the absence of any notification by this deadline, competent or designated authorities will be considered by the EBA to be non-compliant. Notifications should be sent by submitting the form available on the EBA website to compliance@eba.europa.eu with the reference 'EBA/GL/2020/xx'. Notifications should be submitted by persons with appropriate authority to report compliance on behalf of their competent authorities. Any change in the status of compliance must also be reported to EBA.

4. Notifications will be published on the EBA website, in line with Article 16(3).

[5] Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC, (OJ L 331, 15.12.2010, p.12).

[6] Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (OJ L 176, 27.6.2013, p.338).

2. Subject matter, scope and definitions

Subject matter

5. These guidelines specify, pursuant to Article 133(6) of Directive 2013/36/EU, the appropriate subsets of sectoral exposures to which the relevant authority may apply a SyRB in accordance with Article 133(5)(f) of that Directive.

6. In addition, these guidelines further specify some aspects of the application of the SyRB to those sectoral exposures in accordance with Article 133 of Directive 2013/36/EU, in particular, their systemic relevance, the interaction of the sectoral SyRB with other macroprudential measures and reciprocity.

Scope of application

7. These guidelines apply in relation to the imposition on institutions by the relevant authority of a requirement to maintain a SyRB under Article 133 of Directive 2013/36/EU to a subset of any of the sectoral exposures identified in Article 133(5)(b) of that Directive.

Addressees

8. These guidelines are addressed to competent authorities as defined in point (i) of Article 4(2) of Regulation (EU) No 1093/2010 or, where different, designated authorities referred to in Article 133(3) of Directive 2013/36/EU (both referred to as ‘relevant authorities’).

Definitions

Unless otherwise specified, terms used and defined in Directive 2013/36/EU or Regulation (EU) 575/2013[7] have the same meaning in the guidelines. In addition, for the purposes of these guidelines, the following definitions apply:

‘Commercial immovable property’ means any immovable property that is not a "residential property" within the meaning of Article 4(1)(75) of Regulation (EU) 575/2013.

‘Credit for consumption’ means credit for consumption as defined under category 2 of Part 2 of Annex 2 to Regulation (EU) No 1071/2013 of the European Central Bank[8].

‘Dimension of an exposure’ means a specific characteristic of an exposure.

[7] Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p.1).

[8] Regulation (EU) No 1071/2013 of the European Central Bank of 24 September 2013 concerning the balance sheet of the monetary financial institutions sector (recast) (ECB/2013/33) (OJ L 297, 7.11.2013, p. 1).

‘Financial corporation’ means a financial corporation as defined in paragraph 2.55 of Annex A to Regulation (EU) No 549/2013.

‘FX loan’ means FX lending as defined in the EBA Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP) and supervisory stress testing[9].

‘General government’ means a general government as defined in paragraph 2.111 of Annex A to Regulation (EU) No 549/2013.

‘Institutional unit’ means an institutional unit as defined in paragraph 1.57 of Annex A to Regulation (EU) No 549/2013[10].

‘Legal person’ means a legal entity as defined in point (5) of Regulation (EU) 2016/867 of the European Central Bank[11].

‘Natural person’ means a household as defined in paragraph 2.118 of Annex A to Regulation (EU) No 549/2013.

‘Non-financial corporation’ means a non-financial corporation as defined in paragraph 2.45 of Annex A to Regulation (EU) No 549/2013.

‘Non-performing’ refers to the categorisation of an exposure as non-performing pursuant paragraphs 213-219 of Part 2 of Annex V to Commission Implementing Regulation (EU) No 680/201412.

‘Relevant authority’ means the competent authority or the designated authority, as applicable, referred to in Article 133(3) of Directive 2013/36/EU.

‘Residential property’ means a residence as defined in point (75) of Article 4(1) of Regulation (EU) No 575/2013.

‘Retail exposures’ means exposures to natural persons that comply with the criteria referred to in points (b) and (c) of the first subparagraph of Article 123 of Regulation 575/2013.

‘Sectoral exposures’ means the exposures categories identified in point (b) of Article 133(5)(b) of Directive 2013/36/EU.

[9] EBA/GL/2014/13, as amended.

[10] Regulation (EU) No 549/2013 of the European Parliament and of the Council of 21 May 2013 on the European system of national and regional accounts in the European Union (OJ L 174, 26.6.2013, p. 1).

[11] Regulation (EU) 2016/867 of the European Central Bank of 18 May 2016 on the collection of granular credit and credit risk data (ECB/2016/13) (OJ L 144, 1.6.2016, p.44).

[12] Commission Implementing Regulation (EU) No 680/2014 of 16 April 2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council (OJ L 191, 28.6.2014, p. 1).

‘SyRB’ means systemic risk buffer.

‘Total Debt-to-EBITDA ratio’ means total debt to EBITDA ratio as defined in accordance with the ECB Guidance on leveraged transactions[13].

‘Unsecured’ means there is no protection that can be used in relation to an exposure.

[13] May 2017.

3. Implementation

Date of application

9. These guidelines apply from 29 December 2020.

4. Criteria for the identification of subsets of sectoral exposures

15. Subject to Sections 5 and 7, when applying a SyRB in accordance with Article 133(4) and (5)(f) of Directive 2013/36/EU, relevant authorities should identify a subset or subsets of sectoral exposures by combining elements from the following dimensions and, where appropriate, sub-dimensions of exposures:

Dimensions	**Sub-dimensions**
Debtor or counterparty sector	Economic activity
Type of exposure	Risk profile
Type of collateral	Geography

16. For the purposes of paragraph 15, relevant authorities should combine one element from each of the following dimensions of exposures: debtor or counterparty sector, type of exposure and type of collateral. The list of elements, including their breakdown, under each dimension is specified in Section 6.

17. In addition to the minimum set of dimensions referred to in paragraph 16, relevant authorities may, where appropriate, duly justified and proportionate in order to prevent and mitigate macroprudential or systemic risks, as referred to Article 133(1) of Directive 2013/36/EU, supplement the dimensions referred in paragraph 16 with one element from any of the following correlated sub-dimensions: economic activity (for the dimension 'debtor or counterparty sector'), risk profile (for the dimension 'type of exposure') and geography (for the dimension 'type of collateral' or dimension 'debtor or counterparty sector'). The list of elements under each sub-dimension, including their breakdown, is specified in Section 6.

18. By way of derogation from paragraphs 17, relevant authorities may choose to combine, if deemed necessary, two elements from the sub-dimension 'risk profile' provided that risks stemming from the targeted subset of sectoral exposures are systemically relevant in accordance with section 5.

19. Examples of application of these dimensions and sub-dimensions are included in Annex 2.

Question for the consultation:

1. **What are the respondents' view on the three pre-determined dimensions and three pre-determined sub-dimensions to which the common framework allows to define a subset of exposures for the application of a sectoral systemic risk buffer?**

5. Criteria for assessing the systemic relevance of subsets of sectoral exposures

20. When identifying a subset of sectoral exposures to which relevant authorities may apply a SyRB, relevant authorities should consider whether it is justified to activate a sectoral SyRB on the basis of the systemic relevance of the risk stemming from the subset of sectoral exposures they want to target, taking into account the different sources from which these risks can arise from a national financial stability perspective, and avoid an excessively granular application of the sectoral SyRB.

21. For the purpose of paragraph 20, relevant authorities should make a quantitative and qualitative assessment (including, where appropriate, the setting of materiality thresholds) of the systemic relevance of the subset of sectoral exposures.

22. When carrying out the assessment mentioned in paragraph 21, relevant authorities should take into account the following criteria:

- Size: Relevant authorities should consider whether the size of the targeted subset of sectoral exposures can give rise to a serious risk to the financial system and the real economy in a specific Member State. For these purposes, relevant authorities may take into consideration the relative size of the subset to total assets of the domestic banking system, to total risk weighted assets of the domestic banking system, to total capital of the domestic banking system, to the GDP of the domestic economy. Relevant authorities may also take into account, where relevant, other considerations such as the market structure for certain exposures.

- Riskiness: 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 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.

- Interconnection: Relevant authorities should consider whether other subsets of exposures or financial market actors depend directly and indirectly on the targeted subset of sectoral exposures and whether the materialisation of risk in the targeted subset could lead to negative direct and/or indirect material spillover effects to other exposures or to financial market actors.

Question for the consultation:

2. **What are the respondents' view on the three criteria for assessing systemic relevance of a subset of exposures?**

6. Classification of dimensions and sub-dimensions

23. The dimensions and sub-dimensions of a subset of sectoral exposures referred to in Section 4 should include the elements specified in this Section. An overview of the dimensions and correlated sub-dimensions and their elements that should be used to identify a specific subset of a sectoral exposure in accordance with these guidelines is included in Annex 1.

6.1. Debtor or Counterparty sector

24. The dimension 'debtor or counterparty sector' should include two mutually exclusive elements:

1.1. Legal person; or

1.2. Natural person.

25. The element 'legal person' may include the following sub-elements:

1.1.1. Non-financial corporations;

1.1.2. Financial corporations; and

1.1.3. General governments.

6.1.a. Economic activity

26. The sub-dimension 'economic activity' should include the economic activities identified by an alphabetical code in the first level (Sections) of the common statistical classification of economic activities in the European Community (NACE Revision 2) as set out in Annex 1 to Regulation (EC) No 1893/2006[14].

6.2. Type of exposure

27. The dimension 'type of exposure' should include the following elements:

2.1. All exposures;

2.2. Retail exposures; and

2.3. Other than retail exposures.

[14] Regulation (EC) No 1893/2006, of the European Parliament and of the Council of 20 December 2006 establishing the statistical classification of economic activities NACE Revision 2 and amending Council Regulation (EEC) No 3037/90 as well as certain EC Regulations on specific statistical domains (OJ L 393, 30.12.2006, p. 1).

28. A further breakdown by the following instruments may be considered, following the classification set out in Annexes II and IV to Commission Implementing Regulation (EU) No 680/2014[15]:

a. On-balance sheet items:

i. Equity instruments;

ii. Debt securities; and

iii. Loans and advances.

b. Off-balance sheet items:

iv. Loan commitments given;

v. Financial guarantees given; and

vi. Other Commitments given.

29.The instrument 'Loans and advances' may include the following breakdown:

iii.a FX loans

iii.b Credit for consumption

6.2.a. Risk profile

30. The sub-dimension 'risk profile' should include the following elements:

2.a.1. Non-performing;

2.a.2. Risk-weight;

2.a.3. Total Debt-to-EBITDA ratio;

2.a.4. Loan-to-value ratio;

2.a.5. Loan-to-income ratio;

2.a.6. Debt-to-income ratio; and

2.a.7. Debt service-to-income ratio.

[15] Commission Implementing Regulation (EU) No 680/2014 of 16 April 2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council (OJ L 191, 28.6.2014, p. 1).

The elements 2.a.4 to 2.a.7 should follow the methods for measuring and calculating them and definitions set out in Annexes IV and V to Recommendation ESRB/2016/14 on closing real estate data gaps as amended by Recommendation of the European Systemic Risk Board of 21 March 2019 (ESRB/2019/3).

6.3. Type of collateral

31. The dimension 'type of collateral'[16] should include the following mutually exclusive elements:

3.1. Secured/Collateralized; or

3.2. Unsecured.

32. The element 'Secured/Collateralized' can include the following breakdown:

3.1.1. All types of collateral;

3.1.2. Secured by residential property;

3.1.3. Secured by commercial immovable property; or

3.1.4. Secured by other than immovable property.

6.3.a. Geography

33. The sub-dimension 'geography' should include the following elements (territorial units), following the European common classification of territorial units for statistics (NUTS) set out in Annex I to Regulation (EC) No 1059/2003[17]:

3.a.1. Member State (NUTS level 1 territorial unit[18]);

3.a.2. Region of a Member State (NUTS level 2 territorial unit); and

3.a.3. Sub-region or city of the previous territorial units (NUTS level 3 territorial unit).

34. The sub-dimension 'geography' should be understood as follows:

a) when the exposure is secured by residential or commercial immovable property, the sub-dimension refers to the specific location of the property (region, sub-region or city) within the Member State or to all exposures secured in that Member State.

[16] For presentation purposes, unsecured is classified as a type of collateral.

[17] Regulation (EC) No 1059/2003 of the European Parliament and of the Council of 26 May 2003 on the establishment of a common classification of territorial units for statistics (NUTS) (OJ L 154, 21.6.2003, p. 1), as amended.

[18] In the cases of larger Member States, NUTS 1 doesn't refer to the whole Member State but to regions of it. Therefore, this level is kept as an element although for some Member States this level will not be relevant.

b) when the exposure is secured by other than immovable property, the sub-dimension refers to the specific place of residence of the debtor or counterparty (region, sub-region or city) within the Member State or to all exposures secured by other than immovable property in that Member State.

c) when the exposure is unsecured, the sub-dimension refers to the specific place of residence of the debtor or counterparty (region, sub-region or city) within the Member State or to all unsecured exposures in that Member State.

Question for the consultation:

3. **What are the respondents' view on whether the elements in section 6 provide sufficient guidance for readers as to the nature of the sub-dimensions?**

7. General principles regarding interactions with other macroprudential measures and reciprocity

35. When relevant authorities decide to identify a subset of sectoral exposures in accordance with sections 4 to 6, they should ensure the right balance between addressing the systemic risk stemming from the identified subset (the targeted subset) and the unintended consequences when applying a sectoral SyRB to this subset.

Unwarranted interactions with other macroprudential measures

36. For the purposes of paragraph 36, relevant authorities should in particular:

  a. ensure that the risks being addressed by the application of a sectoral SyRB determined in accordance with these guidelines are clearly and thoroughly defined.

  b. take into account and specify, when they are planning to introduce a sectoral SyRB, the interaction with other active macro-prudential measures in order to avoid activating the SyRB in an unwarranted manner for risks that have already been addressed by those macroprudential measures.

  c. avoid unwarranted interactions that may emerge between SyRBs if the same systemic risks are targeted by multiple SyRBs (either sectoral SyRB and/or broader SyRBs) or where the same element for the identification of a subset of sectoral exposures is used in multiple sectoral SyRBs.

Reciprocity

37. When identifying an appropriate subset of sectoral exposures to which relevant authorities may apply a SyRB, they should take into account that:

  d. an excessive granular application of the sectoral SyRB would disincentive other authorities from reciprocating in accordance with Article 134 of Directive 2013/36/EU if the implementation of the measure by institutions and subsequent monitoring by relevant authorities is likely to be associated with high costs.

  e. data gaps stemming from non-harmonised definitions can exist between jurisdictions, leading to challenges in the reciprocation of the measure and henceforth in the effectiveness of the measure.

38. In order to make reciprocity as simple as possible for reciprocating authorities, relevant authorities of the activating Member State should aim to provide all the information (including definitions and relevant calculations) it considers relevant and not available to other Member States so they can adequately assess the reciprocity request.

39. Relevant authorities should consider the ESRB Recommendation 2015/2 on cross-border effects and voluntary reciprocity[19] and reciprocate, where appropriate, SyRB measures introduced in other Member States by adopting the most equivalent macroprudential policy measures available under national legislation.

Question for the consultation:

4. **What are the respondents' views on the potential challenges in applying this framework to design a systemic risk buffer measure?**

[19] ESRB/2015/2

Annex 1 – List of dimensions and sub-dimensions applicable for each high-level sectoral exposure

i) Retail exposures to natural persons which are secured by residential property	**ii) Exposures to legal persons which are secured by mortgages on commercial immovable property**	**iii) Exposures to legal persons excluding those specified in (ii)**	**iv) Exposures to natural persons excluding those specified in (i)**
1. Debtor or counterparty sector i. Natural persons	**1. Debtor or counterparty sector** i. Non-financial corporations ii. Financial corporations iii. General governments	**1. Debtor or counterparty sector** i. Non-financial corporations ii. Financial corporations iii. General governments	**1. Debtor or counterparty sector** i. Natural persons
	1.a. Economic activity i. NACE A – NACE S	**1.a. Economic activity** i. NACE A – NACE S	
2.Type of exposure i. Retail exposures By instrument i. Equity instruments ii. Debt securities iii. Loans and advances a. FX loans	**2. Type of exposure** ii. All exposures iii. Retail exposures iv. Other than retail By instrument i. Equity instruments ii. Debt securities iii. Loans and advances a. FX loans	**2. Type of exposure** i. All exposures ii. Retail exposures iii. Other than retail By instrument i. Equity instruments ii. Debt securities iii. Loans and advances a. FX loans	**2. Type of exposure** i. All exposures ii. Retail exposures iii. Other than retail By instrument i. Equity instruments ii. Debt securities iii. Loans and advances a. FX loans

i) Retail exposures to natural persons which are secured by residential property	**ii) Exposures to legal persons which are secured by mortgages on commercial immovable property**	**iii) Exposures to legal persons excluding those specified in (ii)**	**iv) Exposures to natural persons excluding those specified in (i)**
b. Credit for consumption iv. Loan commitments given v. Financial guarantees given vi. Other commitments given	iv. Loan commitments given v. Financial guarantees given vi. Other commitments given	iv. Loan commitments given v. Financial guarantees given vi. Other commitments given	b. Credit for consumption iv. Loan commitments given v. Financial guarantees given vi. Other commitments given
2.a. Risk profile i. Non-performing ii. Risk weight iii. Loan-to-value iv. Loan-to-income v. Debt-to-income vi. Debt service-to-income	**2.a. Risk profile** i. Non-performing ii. Risk weight iii. Loan-to-value iv. Debt-to-EBITDA ratio	**2.a. Risk profile** i. Non-performing ii. Risk weight iii. Loan-to-value iv. Debt-to-EBITDA ratio	**2.a. Risk profile** i. Non-performing ii. Risk weight iii. Loan-to-value iv. Loan-to-income v. Debt-to-income vi. Debt service-to-income
3. Type of collateral i. Secured by RRE	**3. Type of collateral** ii. Secured by CRE	**3. Type of collateral** i.Secured by RRE ii.Secured by other than immovable property ii. Unsecured	**3. Type of collateral** i. All types of collateral ii. Secured by RRE iii. Secured by CRE iv. Secured by other than immovable property v. Unsecured
3.a. Geography i. Country (NUTS 1 level) ii. Region (NUTS 2 level) iii. City (NUTS 3 level)	**3.a. Geography** iv. Country (NUTS 1 level) v. Region (NUTS 2 level) vi. City (NUTS 3 level)	**3.a. Geography** i. Country (NUTS 1 level) ii. Region (NUTS 2 level) iii. City (NUTS 3 level)	**3.a. Geography** i. Country (NUTS 1 level) ii. Region (NUTS 2 level) iii. City (NUTS 3 level)

Annex 2 – Examples of application of the dimensions and sub-dimensions for the identification of subsets of sectoral exposures

40.Five simple examples can illustrate the application of the criteria for the identification of subsets of sectoral exposures All of the examples assume that the subset is systemically relevant according to section 5.

41. First, assume a country X where the stock of consumer lending represents 25% of total loans. This share has been increasing rapidly in the past years ("search-for-yield" behaviour) mainly because of the low margins in secured loans and an easing in credit standards. When country X enters the downturn, the economic environment could trigger a strong increase in defaults/delinquencies in the consumer lending portfolios. In this case, the authority could in the upturn apply a sectoral systemic risk buffer to the following subset:

1. Debtor	= Natural persons
2. Type of exposure	= Credit for consumption
3. Type of collateral	= Unsecured

This is a subset of the fourth sector mentioned in Article 133(5)(b) of Directive (EU) 2019/878.

42.Second, assume a country Y where 70% of mortgage lending in the residential real estate (RRE) sector is concentrated in its capital city. The real estate market in the capital city is overvalued (contrary to the rural area) according to national and international studies. At the same time, the low interest rate has increased households' indebtedness in country Y significantly. In this case, the authority could apply a sectoral systemic risk buffer to the following subset:

1. Debtor or counterparty sector	= Natural persons
2. Type of exposure	= Retail
2.a. Risk profile	= LTV > 60% and DTI > 4
3. Type of collateral	= RRE
3.a. Geography	= Capital city

This is a subset of the first sector mentioned in Article 133(5)(b) of Directive (EU) 2019/878.

43. Third, assume a country Z where 20% of the total lending secured by immovable property is to the domestic agricultural sector. The total stock of lending secured by immovable property in country Z represents more than the country's GDP. In this country, the agricultural sector is not profitable. Most of the exposures in this sector are towards highly indebted debtors that at the same time are highly sensitive to interest rate hikes. For country Z, this subset of exposures poses a systemic risk. The authority could apply a sectoral systemic risk buffer to the following subset:

1. Debtor or counterparty sector = Non-Financial corporations

   1.a. Economic activity = NACE A

2. Type of exposure = Loans and advances

   2.a. Risk profile = Debt-to-EBITDA ratio > 4

3. Type of collateral = CRE

This is a subset of the second sector mentioned in Article 133(5)(b) of Directive (EU) 2019/878.

44. Fourth, assume a country W where the total outstanding of corporate bonds amounts to EUR 500bn representing 20% of the country's GDP. Almost 50% of these bonds are held by the domestic banking sector. Because of the low interest rate environment persistent during many years, the share in the banks' balance sheet of corporate bonds at the bottom tier of investment grade has increased from 10% to 40%. In the event of a recession, the losses from such holdings could destabilise the domestic banking sector. The authority could apply a sectoral systemic risk buffer to the following subset:

1. Debtor or counterparty sector = Non-Financial corporations

2. Type of exposure = Debt securities

3. Type of collateral = Unsecured

This is a subset of the third sector mentioned in Article 133(5)(b) of Directive (EU) 2019/878.

45. Fifth, assume a country P where household indebtedness is relatively high and vulnerabilities in the housing market are significant. Furthermore, Country P is characterised by a large share of banks using IRB models. The share of mortgage lending in the residential real estate is significant at the country level, while the average risk weights are below EU peers. In this case, the authority could apply a sectoral systemic risk buffer to the following subset:

1. Debtor or counterparty sector = Natural persons

2. Type of exposure = Retail

    2.a. Risk profile = (Average) risk weight < 20%

3. Type of collateral = RRE

This is a subset of the first sector mentioned in Article 133(5)(b) of Directive (EU) 2019/878.

5. Accompanying documents

5.1 Draft cost-benefit analysis / impact assessment

This section provides a qualitative and quantitative analysis of the rationale behind these guidelines (problem identification) and their potential impact.

The qualitative analysis explains the pros and cons of leveraging on pre-defined dimensions to define subsets of sectoral exposures.

The quantitative analysis relies on information available through the Supervisory Reporting Templates (i.e. FINREP and COREP) and in particular on data provided in the EBA sample. This allows to avoid collecting information from the National Competent Authorities (NCAs) or directly from banks.

The quantitative analysis includes a baseline scenario represented by the definition of sectors provided in Article 133 (5)(b) of CRD V. In addition, the possibility to segment the sectors in subsets of sectoral exposures as suggested by these guidelines is also provided. Alternatively, the possibility to provide high level guidelines about the dimensions without providing exact definitions is also considered. The analysis shows the relative size (compared with the total amount of the risk weighted assets) of the subsets obtained under the baseline and the first alternative scenario. A sensitive analysis on the impact of applying a buffer equal to the 3% of the RWAs is also provided and expressed in terms of percentage of the CET1 voluntary capital buffer. The data stems from a sample of 116 EU banks (as of 31 December 2018).

The aim of this analysis is to demonstrate the benefit of having a sectoral SyRB in terms of higher flexibility against the challenge of introducing excessive complexity.

5.1.1 Problem identification

Under CRD IV, the implementation of the SyRB varied widely across countries. Although, there are already checks and balances within the existing regulatory framework, which ensure a degree of harmonisation across Member States, national authorities have been following different arrangements. In particular, in terms of the buffer level, the scope (i.e. solo or consolidated) and the phase-in periods (with or without).

CRD V addresses some of these divergences. Nevertheless, the current application of the SyRB underlines the need of flexibility in addressing a wide variety of sources of risks but also shows the lack of a common framework among countries.

CRD V increases the flexibility and comprehensiveness of the SyRB. Thus, a common framework for the application of the SyRB is crucial, still this framework should provide the needed flexibility.

5.1.2 Policy objectives

The objective of the guidelines is to set a common framework between Member States to harmonise the design of the appropriate subsets of exposures in the application of a SyRB, facilitating a common approach throughout the EU but also supporting reciprocation of the systemic risk buffer measures between Member States.

5.1.3 Baseline scenario

The baseline is represented by the definition of the sectoral exposures provided by article 133 (5)(b) of CRD V. Four sectors can be, with some simplifications, approximated using the definitions. In other terms, under the baseline scenario, the application of the SyRB would be admissible only at the level of partition obtained by the combination of the characteristics: exposure, debtor and collateral:

Debtor or Counterparty	**Type of Exposures**	**Type of Collateral**	
		Residential/ Commercial	Other Guarantees or Unsecured
Natural persons	Retail Exposures All Exposures	e.g. Lending for hous purchase	e.g. Consumer Loans
Legal persons	All Exposures	e.g. Lending for industrial building purchase	e.g. Advances

Under the baseline scenario, the highest level of simplicity and homogeneity of the application of the SyRB would be obtained, however the flexibility of the framework would be limited.

5.1.4 Options considered

The guidelines depict a common framework for the definition of subsets of the sectoral exposures as defined by article 133(5)(b) of CRD V. For this purpose, further dimensions are introduced with the aim to classify in a more granular manner both the borrowers and the facilities.

The options considered are two:

1. Use the definitions provided by the guidelines to obtain higher flexibility in comparison with the baseline scenario

2. Provide high level guidelines about the dimensions that can be used without providing exact definitions. For example, one of the dimensions could be the economic sector but the definitions could be different from those provided by FINREP

5.1.5 Cost-Benefit Analysis

Qualitative Analysis

Although the common framework for the definition of subsets of the sectoral exposures followed in the guidelines has several advantages, it also brings some disadvantages. This section provides a pros and cons analysis in order to highlight the intended and unintended consequences of the framework.

Pros

By creating a common framework to the design of subsets of exposures, a harmonised and consistent application of the sectoral SyRB is supported thus facilitating reciprocation of the measures between Member States.

The application of the systemic risk buffer using the common framework is flexible and practical, allowing a number of combinations which means the application of the sectoral SyRB is possible for a variety of different subsets of exposures. Thus, this framework allows the relevant authorities to design the most appropriate subsets of exposures for the targeted systemic risk based on a series of pre-determined dimensions, which keep the application harmonised.

The common framework uses, whenever possible, definitions that are already harmonised in the EU (either CRR or other harmonised legislation). Furthermore, most of the data is available in FINREP and COREP. This supports the consistent application of the sectoral SyRB across Member States based on common definitions.

Data might not be available from either a harmonised or a national data collection for all subsets possible to create by combining the dimensions. However, the common framework creates incentives and signals the need to collect additional data by national authorities thus supporting the closing of identified data gaps.

Cons

In comparison with the baseline scenario, allowing to define subset of exposures, increases the complexity of the capital framework and subsequently the macroprudential policy.

Employing CRR definitions could limit the ability to define appropriately the subsets for the purposes of these guidelines. For example, from a financial stability perspective, there is a difference in the definitions of RRE and CRE between CRR and the ESRB recommendation on closing data gaps. The ESRB definitions of residential and commercial real estate have been constructed with the aim of stressing a different level of riskiness between CRE and RRE, where CRE is considered riskier than RRE.

Some of the elements can only be monitored if micro data is available, leading to potential data gaps when calibrating or reciprocating a SyRB. AnaCredit may make the calibration and reciprocation easier as it provides detailed information on individual bank loans in the euro area, which, jointly with the use of standards and common definitions across countries, intends to enhance the harmonization and comparability of results across the area. However, in some noneuro countries this similar dataset is not available, although they can qualify themselves as a reporting country or alternatively collect micro-data on bank loans in a national data collection.

Quantitative Analysis

The aim of this analysis is to demonstrate the benefit of having a sectoral SyRB in terms of higher flexibility against the challenge of introducing excessive complexity. In particular, it is shown that relying only on the dimensions provided by Art. 133(5)(b), each of the sectors obtained includes a large part of the total risk weighted exposures. In particular, the sector defined by Art. 133(5)(b)(iii) i.e. Legal/Unsecured represents on average about 55% of total RWAs. The application of the buffer at this level could have a high impact in terms of the level of the SyRB required and therefore the relevant authorities may not apply it also as the different types of exposures within the sector could be considered too heterogeneous in terms of riskiness. It is also shown that the relative importance of the sectors in terms of total RWAs varies substantially across banks and this implies that the application of the buffer at sector level could result in an increase of the variability of capital requirements.

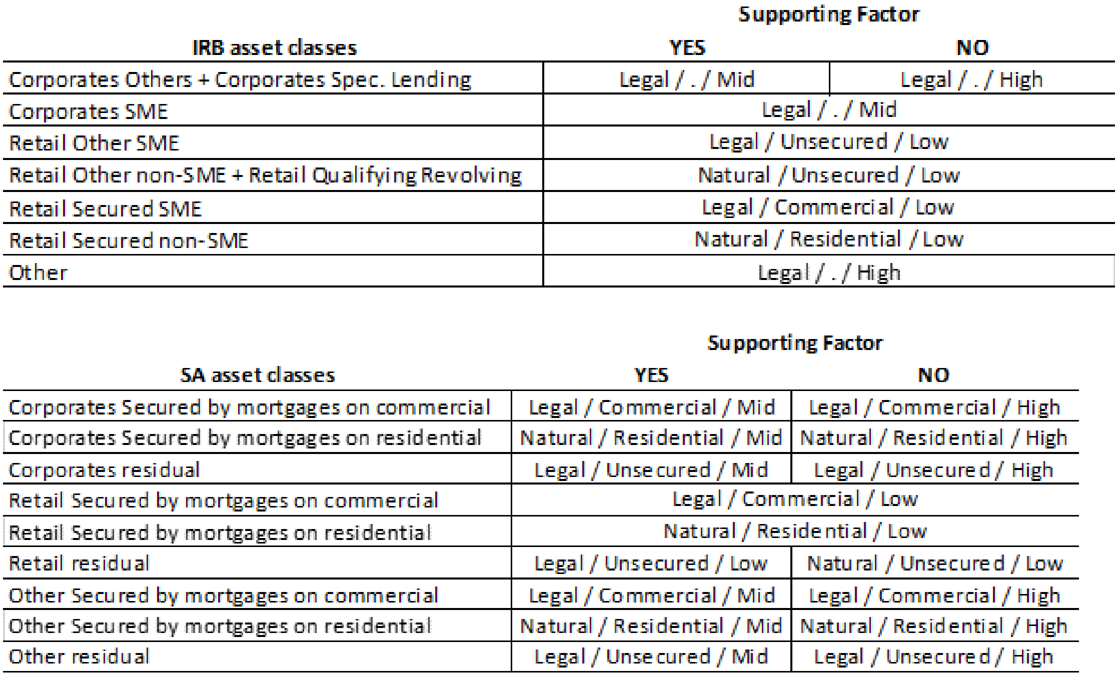
Most of the definitions of the elements that can be used to define the subset of exposures are already in use in FINREP. For example, NACE codes are used in template F 06.01 and, in template F 05.01, loans are classified alternatively by product (facility type), collateral and purpose and borrowers are classified by sector.

However, the sectoral SyRB is applied to the risk exposure amount (RWAs) as defined by article 92(3) of Regulation (EU) No 575/2013 and FINREP does not provide this information. For this reason, it has been necessary to start from COREP and in particular C 07.00 (for exposures subject to the Standardised approach of the credit risk – SA hereinafter) and C 08.01 (for exposures treated with the Internal Rating Based approach – IRB hereinafter).

The level of classification of borrowers and loans is different in COREP for SA and IRB. While the definitions of the portfolios (asset classes), under both approaches, can be traced back to the classification of the borrowers in five sectors (i.e. general-governments, financial corporations, non-financial corporations, households and non-profit), the classification of the loans is less straightforward. In particular, the SA template provides, for each portfolio, the detail of the loans granted either by mortgages on commercial immovable property or on residential property. The IRB template, instead, provides the detail of loans granted by mortgages only for the retail portfolio. For both SA and IRB templates, the detail of the application of the Supporting Factor (SF) gives the possibility to further identify, among the Corporates portfolios, the amount of exposures towards SMEs with total exposures lower than 1.5 million of euro.

The scheme below provides a tentative mapping between the definitions of the sectoral exposures provided by article 133 (5)(b) of CRD V and COREP. The third classification (i.e. Low, Mid, High) is attributed as follows: “Low” is assigned for the Retail asset classes, this implies that the total exposures of each borrower is lower than 1 million of euro. “Mid” is assigned for borrowers subject to the SF, this implies that the borrower is classified as a SME and the exposure is lower than 1.5 million of euro (i.e. it is included in the range 1.0 – 1.5 million). “High” is assigned residually.

Table 1: Mapping between asset classes (IRB and SA) included in COREP and sectors



	Supporting Factor	
IRB asset classes	YES	NO
Corporates Others + Corporates Spec. Lending	Legal / . / Mid	Legal / . / High
Corporates SME	Legal / . / Mid	
Retail Other SME	Legal / Unsecured / Low	
Retail Other non-SME + Retail Qualifying Revolving	Natural / Unsecured / Low	
Retail Secured SME	Legal / Commercial / Low	
Retail Secured non-SME	Natural / Residential / Low	
Other	Legal / . / High	

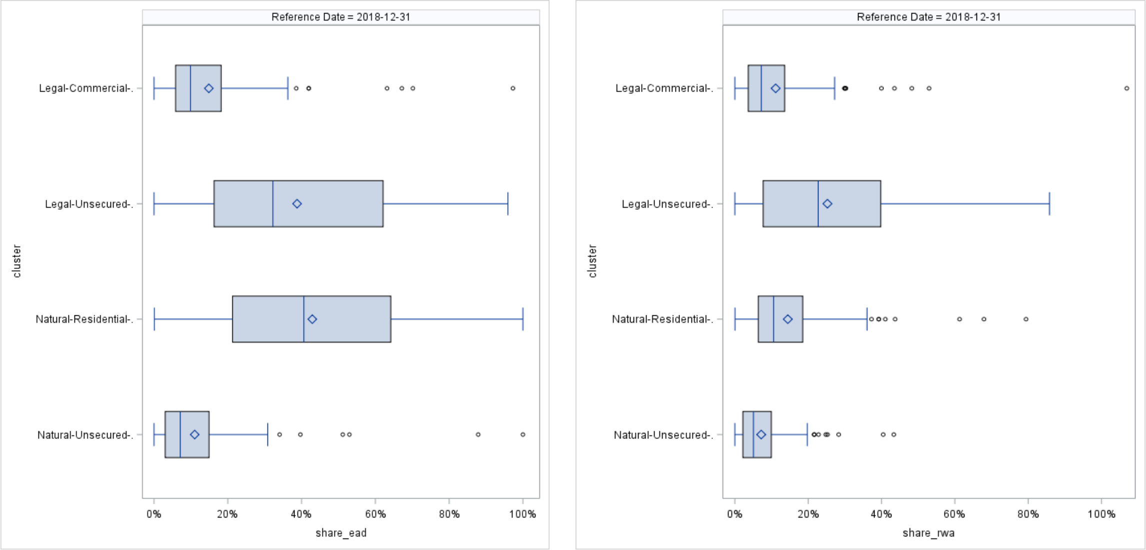
	Supporting Factor	
SA asset classes	YES	NO
Corporates Secured by mortgages on commercial	Legal / Commercial / Mid	Legal / Commercial / High
Corporates Secured by mortgages on residential	Natural / Residential / Mid	Natural / Residential / High
Corporates residual	Legal / Unsecured / Mid	Legal / Unsecured / High
Retail Secured by mortgages on commercial	Legal / Commercial / Low	
Retail Secured by mortgages on residential	Natural / Residential / Low	
Retail residual	Legal / Unsecured / Low	Natural / Unsecured / Low
Other Secured by mortgages on commercial	Legal / Commercial / Mid	Legal / Commercial / High
Other Secured by mortgages on residential	Natural / Residential / Mid	Natural / Residential / High
Other residual	Legal / Unsecured / Mid	Legal / Unsecured / High

Source: Own calculations

It should be noted that the classification as secured or unsecured is missing from the Corporates under the IRB asset class. This reflects the discussion above. By combining, at bank level, COREP and FINREP templates (in particular the template F 05.01), an estimate of the share of secured loans of the IRB Corporates asset classes has been obtained. Furthermore, leveraging on the template F 06.01, an estimate of the partition of the asset classes Corporates and SME-Retail in terms of the NACE codes is also obtained. Data is referred to the reference date 31 December 2018; individual reporting banks have been excluded; the EAD of the SA has been added back to the provisions as to align with the IRB.

The definition of the sectoral exposures in article 133 (5)(b) of CRD V provides four categories: Natural / Residential ; Natural / Unsecured ; Legal / Commercial ; Legal / Unsecured. The following figure shows the relative weight of the four classes in terms of EAD (left panel) and also RWAs compared with the total amount of the RWAs (right panel). It can be seen that two of these clusters represent a large part of the total RWAs. The difference between the two representations is given by the risk weight attributed to each asset classes, in particular some of the asset classes included in the cluster Legal/Unsecured receive a low risk weight (e.g. for Sovereigns under the SA the risk weight is zero). It is possible to observe that for 50% of the banks considered, the cluster Legal/Unsecured (i.e. Corporates and SME-retail not granted by commercial properties) represents among the 12% and the 42% of the total RWAs. In addition, the cluster Natural/Residential represents among the 6% and 21% of the total RWAs.

Figure 1: Relative share of the sectors in terms of EAD and RWA



Source: EBA Supervisory Reporting

Relevant authorities may apply a sectoral SyRB up to the 3% of the RWAs of a given sectoral exposure without the need to request an opinion to the Commission assuming that the overall combined SyRB applied on any set or subset of exposures subject to one or more SyRBs does not exceed 3%. The following chart shows the total impact of the application of a buffer equal to 3% of the RWAs of each sectoral exposure. The impact is expressed in terms of percentage of the CET1 voluntary capital buffer. The data stem from a sample of 116 EU banks.

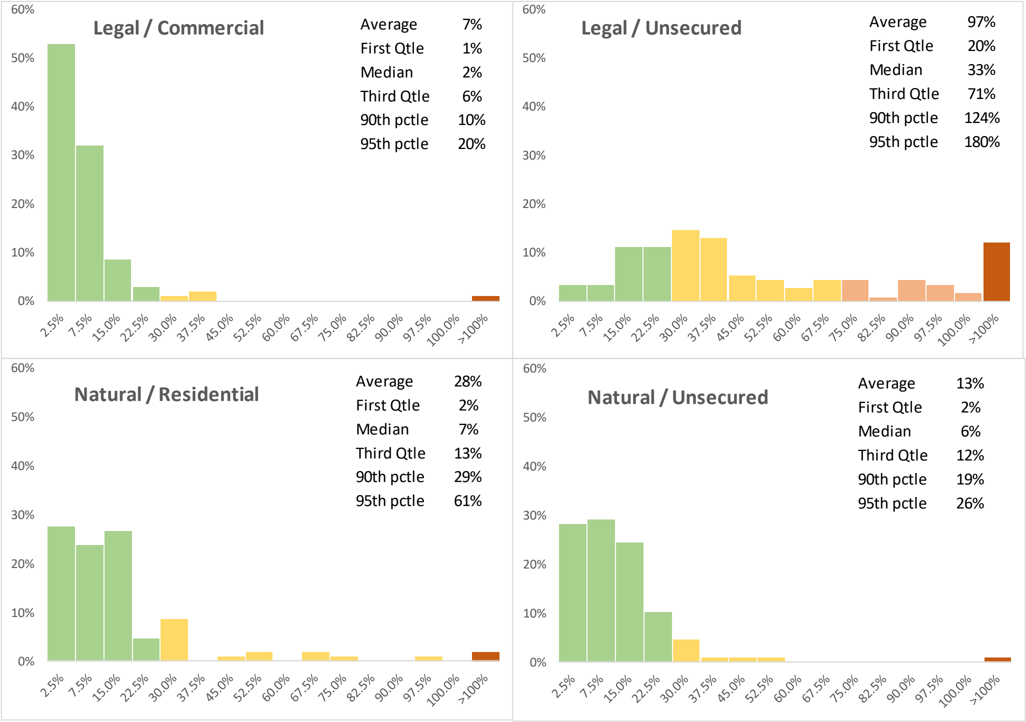
The total amount of the CET1 voluntary capital buffer[20] for the banks considered was equal to EUR 404bn (4% of the total RWAs) at the end of 2018. Considering the two less important clusters, i.e. Legal/Commercial and Natural/unsecured, the average impact of a 3% buffer would be limited (7% and 13% of the CET1 voluntary capital buffer respectively).

For practically all the banks considered, the impact would be lower than 30% of the voluntary buffer (the 95th percentile is lower than 0.3) and the dispersion of the effect would be not so high. For the cluster Natural/Residential both higher average impacts and a higher dispersion of the impacts are produced.

Finally, the application of the buffer to the cluster Legal/Unsecured (that includes a great variation of counterparties i.e. from large to small corporates, financial entities and governments) would be able to produce quite high impacts: for a quarter of the banks (Third Quartile) the required additional capital would be higher than 70% of the CET1 voluntary capital buffer and for 10% of the sample (the 90th percentile) the additional capital requirements would be higher than the buffer. The observed dispersion reflects the different business models of the banks.

[20] The difference between the CET1 capital and the Overall Capital Requirement and Pillar 2 Guidance made up of CET1 Capital

Figure 2: Impact of a 3% buffer in terms of percentage of the CET1 voluntary capital buffer



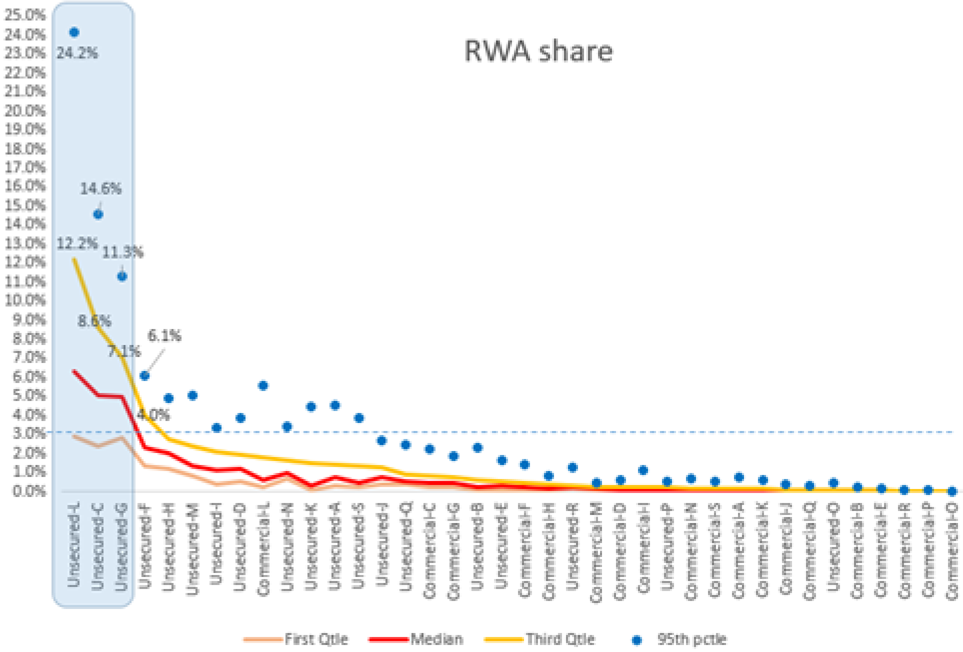
Source: EBA Supervisory Reporting

It appears from the analysis above that the application of the SyRB at the level of partition provided by Article 133 (5)(b) reduces the flexibility of the approach given the large share of risk exposures represented by the clusters defined. Moreover, the impacts in terms capital requirements would vary considerably across banks and countries and this would reduce the comparability of the capital ratios.

One of the dimensions considered by these guidelines is the economic activity. The simple introduction of the NACE as a driver of segmentation of Corporates and SMEs greatly increases the flexibility of the framework. For most of the clusters so defined, the share of the total RWAs is below 3% for 75% of the banks (Third Quartile) and only for three clusters[21] the third quartile is higher than 4%.

[21] C = Manufacturing, G = Wholesale and retail trade, L = Real estate activity

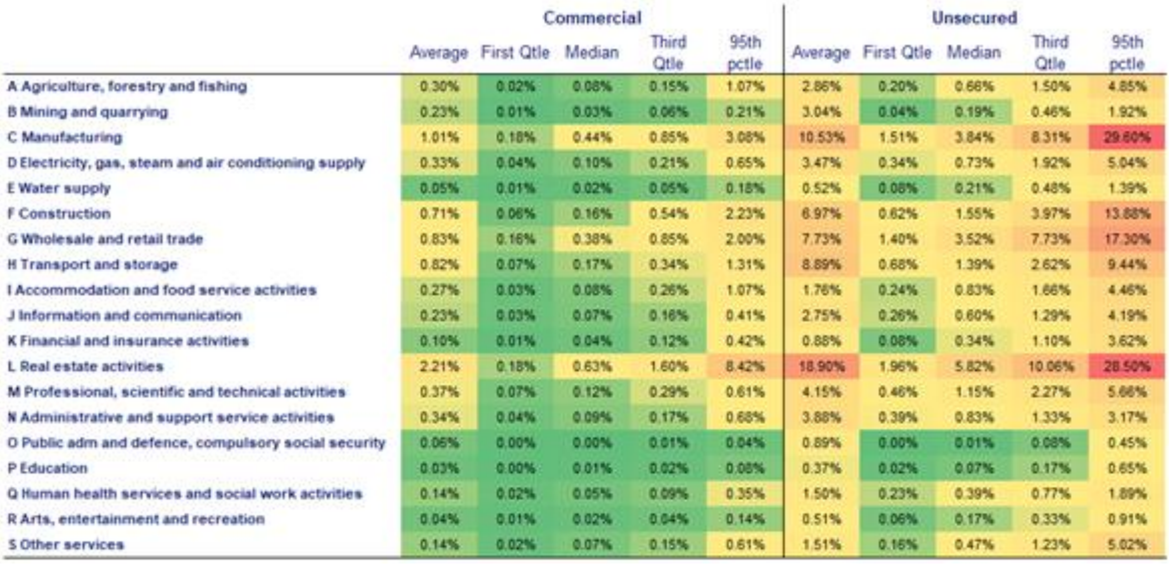
Figure 3: Relative share of the industrial sub-sectors in terms of RWA



Source: EBA Supervisory Reporting

In terms of impact of the application of a 3% surcharge at subsector level, the table below shows that it would be possible to have meaningful impacts compared with the CET1 voluntary buffer. However, it would hardly be possible to have an impact able to completely absorb the buffer and the dispersion appears to be restrained: the 95th percentile of the impacts is below 30%.

Table 2: Impact of a 3% buffer in terms of percentage of the CET1 voluntary capital buffer



	Commercial					Unsecured				
	Average	First Qtle	Median	Third Qtle	95th pctle	Average	First Qtle	Median	Third Qtle	95th pctle
A Agriculture, forestry and fishing	0.30%	0.02%	0.08%	0.15%	1.07%	2.86%	0.20%	0.66%	1.50%	4.85%
B Mining and quarrying	0.23%	0.01%	0.03%	0.06%	0.21%	3.04%	0.04%	0.19%	0.46%	1.92%
C Manufacturing	1.01%	0.18%	0.44%	0.85%	3.08%	10.53%	1.51%	3.84%	8.31%	29.60%
D Electricity, gas, steam and air conditioning supply	0.33%	0.04%	0.10%	0.21%	0.65%	3.47%	0.34%	0.73%	1.92%	5.04%
E Water supply	0.05%	0.01%	0.02%	0.05%	0.18%	0.52%	0.08%	0.21%	0.48%	1.39%
F Construction	0.71%	0.06%	0.16%	0.54%	2.23%	6.97%	0.62%	1.55%	3.97%	13.88%
G Wholesale and retail trade	0.83%	0.16%	0.38%	0.85%	2.00%	7.73%	1.40%	3.52%	7.73%	17.30%
H Transport and storage	0.82%	0.07%	0.17%	0.34%	1.31%	8.89%	0.68%	1.39%	2.62%	9.44%
I Accommodation and food service activities	0.27%	0.03%	0.08%	0.26%	1.07%	1.76%	0.24%	0.83%	1.66%	4.46%
J Information and communication	0.23%	0.03%	0.07%	0.16%	0.41%	2.75%	0.26%	0.60%	1.29%	4.19%
K Financial and insurance activities	0.10%	0.01%	0.04%	0.12%	0.42%	0.88%	0.08%	0.34%	1.10%	3.62%
L Real estate activities	2.21%	0.18%	0.63%	1.60%	8.42%	18.90%	1.96%	5.82%	10.06%	28.50%
M Professional, scientific and technical activities	0.37%	0.07%	0.12%	0.29%	0.61%	4.15%	0.46%	1.15%	2.27%	5.66%
N Administrative and support service activities	0.34%	0.04%	0.09%	0.17%	0.68%	3.88%	0.39%	0.83%	1.33%	3.17%
O Public adm and defence, compulsory social security	0.06%	0.00%	0.00%	0.01%	0.04%	0.89%	0.00%	0.01%	0.08%	0.45%
P Education	0.03%	0.00%	0.01%	0.02%	0.08%	0.37%	0.02%	0.07%	0.17%	0.65%
Q Human health services and social work activities	0.14%	0.02%	0.05%	0.09%	0.35%	1.50%	0.23%	0.39%	0.77%	1.89%
R Arts, entertainment and recreation	0.04%	0.01%	0.02%	0.04%	0.14%	0.51%	0.06%	0.17%	0.33%	0.91%
S Other services	0.14%	0.02%	0.07%	0.15%	0.61%	1.51%	0.16%	0.47%	1.23%	5.02%

Source: Own calculations

5.1.6 Preferred option

The common framework presented in these guidelines ensures a harmonised yet flexible application of the sectoral SyRB. This flexibility may also come with a certain degree of complexity and difficulty of reciprocation but these issues are limited to some extent by the pre-determined dimensions. In addition, any relevant authority can apply the sectoral SyRB in a way that strikes the right balance between the need to address the relevant systemic risk stemming from sectoral exposures and the importance of not becoming too complex.

The relevant authorities might not apply a buffer on an entire sector due to its impact that could be considered excessive if the exposures within the sector are considered not homogenous in terms of riskiness.

The possibility to define subsets of exposures to apply the SyRB increases the flexibility. In addition, the reliance on a pre-defined list of dimensions, along which the subsets can be defined, should ensure a sufficient level of comparability. Allowing unrestricted granularity (the second alternative options) would probably hinder the harmonisation among jurisdictions and limit the reciprocation of the sectoral SyRB measures between Member States.

5.2 Overview of questions for consultation

1. What are the respondents' view on the three pre-determined dimensions and three pre-determined sub-dimensions to which the common framework allows to define a subset of exposures for the application of a sectoral systemic risk buffer?

2. What are the respondents’ view on the three criteria for assessing systemic relevance of a subset of exposures?

3. What are the respondents’ view on whether the elements in section 6 provide sufficient guidance for readers as to the nature of the sub-dimensions?

4. What are the respondents' views on the potential challenges in applying this framework to design a systemic risk buffer measure?