III

(Preparatory acts)

EUROPEAN CENTRAL BANK

OPINION OF THE EUROPEAN CENTRAL BANK

of 24 March 2022

on a proposal for amendments to Regulation (EU) No 575/2013 of the European Parleament and of the Council as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor

(CON/2022/11)

(2022/C 233/02)

Introduction and legal basis

On 20 January and 21 January 2022 the European Central Bank (ECB) received requests from the European Parliament and the Council of the European Union, respectively, for an opinion on the Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 575/2013 as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor ([1]) (hereinafter the 'proposed amendments to the CRR').

The ECB notes that the proposed amendments to the CRR are closely linked to another proposal on which the ECB received a consultation request, namely the Proposal for a Directive of the European Parliament and of the Council amending Directive 2013/36/EU as regards supervisory powers, sanctions, third-country branches, environmental, social and governance risk, and amending Directive 2014/59/EU ([2]) (hereinafter the 'proposed amendments to the CRD').

The ECB's competence to deliver an opinion is based on Articles 127(4) and 282(5) of the Treaty on the Functioning of the European Union since the proposed amendments to the CRR contain provisions affecting the ECB's tasks concerning the prudential supervision of credit institutions in accordance with Article 127(6) of the Treaty and the European System of Central Banks (ESCB)'s contribution to the smooth conduct of policies relating to the stability of the financial system, as referred to in Article 127(5) of the Treaty. In accordance with the first sentence of Article 17.5 of the Rules of Procedure of the European Central Bank, the Governing Council has adopted this opinion.

General observations

The ECB welcomes the Commission's proposals, which implement the outstanding Basel III reforms ([3]) in the EU, reinforce the EU Single Rulebook and enhance the prudential framework for credit institutions in various areas.

The ECB emphasises the importance of finalising the EU implementation of the Basel III reforms in a timely, full, and faithful manner. These reforms address key shortcomings present in the current framework, which were identified by past analyses carried out by both European and international bodies also in relation to European banks, and therefore these reforms are essential to ensure the soundness of the European banking sector.

([1]) COM(2021) 664 final.

([2]) COM(2021) 663 final.

([3]) The Basel III reforms also known as the Basel III standards are standards adopted by the Basel Committee on Banking Supervision (BCBS). The consolidated standards are available on the website of the Bank for International Settlements at www.bis.org

A ***timely*** implementation of the Basel III reforms is important to swiftly address such shortcomings. The ECB therefore encourages the Union legislative bodies to conclude the legislative process promptly, and without unduly long implementation periods. This is important in order to ensure that banks may withstand future crises.

The ECB also considers it important to ***fully*** implement the Basel III standards. In this regard, the ECB appreciates that the Commission's proposal covers all the elements that were developed by the Basel Committee on Banking Supervision and agreed by the Group of Central Bank Governors and Heads of Supervision in December 2017.

Finally, the ECB is strongly attached to a ***faithful*** implementation of the Basel III reforms. This is important for financial stability, as well as for the EU's international credibility. A consistent implementation of these reforms serves to underline the EU's commitment to international financial cooperation, thus helping to underpin the functioning of the global financial system and confidence in EU banks. At the same time, a faithful implementation provides the best possible guarantee for a stable banking system, while the proposed deviations and implementation choices would leave pockets of risks insufficiently addressed in the banking sector. As explained below, these risks mainly arise in the proposed prudential treatment of real estate exposures, credit risk from unrated corporates, counterparty credit risk, equity exposures, and operational risk.

The following sections of the opinion provide detailed views on the main elements of the proposal and on the remaining risks that could be insufficiently covered if the EU decides to depart from Basel III standards.

It is also important that the prudential framework remains fit for purpose by closing identified gaps and by keeping up with innovation. The new definitions of key concepts of ancillary services undertakings and financial institutions proposed by the Commission are welcome, as they clarify the boundaries of the regulatory perimeter. The ECB also welcomes the mandate for the Commission to report on a new proposal on the prudential treatment of crypto assets.

The ECB also agrees with the Commission's view expressed in the explanatory memorandum of the proposal that there is no need for additional supervisory powers to be granted to competent authorities to impose restrictions on distributions by credit institutions in exceptional circumstances of serious economic disturbance. At the same time, the ECB observes that during such periods of economic and financial distress, credit institutions might not be willing to use their capital buffers ([4]). Looking forward, the ECB is of the view that further consideration should be given to removing disincentives to using capital buffers.

1. **Introduction of the output floor**

1.1. The output floor is an important element of the Basel III reforms. It reduces unwarranted variability of risk-weighted assets across institutions, thereby reinforcing the level playing field and strengthening the prudential framework. The ECB strongly welcomes that the Commission opted for the so-called single stack approach, regarding the implementation of the output floor, where banks only have one way of measuring their risk-weighted assets ([5]).

1.2. The ECB notes nevertheless that the proposal also includes significant transitional arrangements leading to lower risk weights than those envisaged in the Basel standards in some specific areas, namely (i) residential real estate exposures with low historical losses, (ii) exposures to unrated corporates, and (iii) the calibration of counterparty credit risk related to derivative exposures. The ECB considers that these deviations from the Basel III standards are not justified from a prudential and financial stability perspective and may leave pockets of risks unaddressed.

1.3. The transitional treatment of residential real estate ('RRE') exposures in particular poses several concerns. The transitional arrangement would weaken the backstop function of the output floor in relation to residential real estate lending – an area that has the potential to endanger financial stability, as illustrated in recent reports from both the

([4]) See Opinion CON/2020/16 of the European Central Bank of 20 May 2020 on amendments to the Union prudential framework in response to the COVID-19 pandemic (OJ C 180, 29.5.2020, p. 4). All ECB opinions are published on EUR-Lex.

([5]) For additional information on the 'single stack' approach for risk-based capital requirements, please see the Commission's Questions and Answers.

ESRB [6] and the ECB [7]. Household indebtedness and RRE overvaluation are increasing in several EU Member States, adding to the build-up of medium-term vulnerabilities and concerns over a debt-fuelled housing bubble. This could in turn leave some banks with own funds that are not commensurate to the potential losses stemming from the materialisation of these risks. The transitional arrangement may also lead to further fragmentation inside the EU banking market, insofar as institutions may be subject to different capital requirements for similar risks, depending on Member State implementation. Given these concerns, the ECB considers that there should be no such preferential treatment of RRE. If retained, this mechanism should be of a strictly temporary and limited nature.

1.4. Furthermore, the ECB is also concerned about the transitional provisions pertaining to unrated corporates. Under the Basel standards, lending to such corporates comes with a higher risk weight, which reflects the higher uncertainty about their actual riskiness. Lowering the risk weight based on a bank's own risk estimates weakens the purpose of the output floor, which is to protect against the underestimation of risks by institutions' own models, as institutions could rely on their own probability of default ('PD') estimates for attributing a lower risk weight to corporates. The Commission proposes to make the application of a 65 % risk weight conditional on an estimated one-year probability of default that could be as high as 0,5 %. The ECB considers that this is too broad, as it could cover corporates with elevated risk profile. Given the risks involved, the ECB therefore considers that no such exception for unrated corporates should be made. If retained, this mechanism should remain of a strictly temporary and limited nature. Finally, the ECB fully supports the efforts to increase rating coverage amongst European corporates in the medium to long term, which could additionally provide an important contribution to the Capital Markets Union project.

1.5. The ECB cautions against any change to the treatment of counterparty credit risk related to derivative exposures in the context of the output floor, be it temporary or permanent. The ECB is concerned that any change in the calibration of the standardised approach for measuring counterparty credit risk exposures ('SA-CCR') would leave some prudential risks uncovered and would underestimate the exposure amount for counterparty credit risk.

1.6. As regards the level of application of the output floor, the Commission has proposed to apply it at the highest level of consolidation. Within banking groups, this is coupled with a re-distribution mechanism of the impact incurred at the highest level of consolidation across the parent and the subsidiaries [8]. This mechanism allows EU banking groups which are bound by the output floor to allocate capital within the group more effectively compared to an application at individual level, while still reflecting the respective riskiness of the group's presence in each Member State. However, the introduction of output-floor specific requirements at the Member State sub-consolidated level may still incentivise banking groups to reorganise activities so as to minimise the output floor impact on individual parts of the group in ways that could potentially be misaligned with established organisational structures or sound risk management. In addition, it would freeze more capital at local level, leaning against the objective of enabling free movement of capital within European banking groups, which is an important precondition of financial integration. An alternative option would be to apply the output floor at both the highest consolidated level in the EU and at the Member State sub-consolidated level, without the distribution mechanism. This would already simplify the framework for banks compared to the Commission's proposal and ensure proper capitalisation in each Member State, although it would lock-in also capital at this sub-consolidated level. A second option would be to apply the output floor at the highest level of consolidation only, which would be coupled with an obligation for banks and competent authorities to ensure that the capitalisation of standalone entities is adequate [9]. This approach would not only be simpler and reduce fragmentation of the European banking sector but also duly reflect the fact that the output floor was calibrated to reduce the undue variability of risk-weighted assets at the level of the banking group, rather than at the level of each entity. This last approach is preferred by the ECB.

1.7. Finally, the ECB notes that the CRD proposal includes provisions on the interactions between the output floor, supervisory requirements and macroprudential capital buffers. These matters will be addressed in the separate opinion on the proposed amendments to the CRD [10].

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[6] European Systemic Risk Board, Vulnerabilities in the residential real estate sectors of the EEA countries, February 2022.
[7] European Central Bank, Financial Stability Review, November 2021.
[8] Please see the Commission's explanatory memorandum.
[9] In accordance with SCO 10 of the Basel principles.
[10] See the Proposal for a Directive of the European Parliament and of the Council amending Directive 2013/36/EU as regards supervisory powers, sanctions, third-country branches, environmental, social and governance risk, and amending Directive 2014/59/EU.

2. **Credit risk framework – standardised approach**

2.1. The ECB welcomes the proposals to implement the new standardised approach for credit risk, as it will render those institutions that do not rely on internal models more resilient and their capital requirements more risk sensitive. However, the ECB notes with concern that the proposal also contains several new deviations from Basel III standards, especially as regards (i) specialised lending exposures, (ii) equity exposures, (iii) retail exposures and (iv) the methodology for collateral valuation for exposures secured by immovable property. In addition, some existing deviations have been maintained (e.g. for small and medium-sized enterprises (SMEs) and infrastructure) which should be reassessed by the co-legislators. The ECB considers that these deviations may altogether reduce the consistency and safety of the new standardised approach and leave certain risks uncovered. This could in turn leave banks without sufficient available capital in case risks materialise in these market segments. More specifically, the Basel III framework was calibrated to reflect the riskiness of specialised lending exposures and any change, such as the creation of a new category for high-quality object finance or the changes to the criteria for high-quality project financing, could leave risks uncovered, notably during the pre-operational phase of projects, and thus lower the protection for banks. Moreover, standardised risk weights should not be based on the sole judgement of institutions without model approval as to whether object financing might meet 'high quality' criteria similar to the internal ratings based ('IRB') slotting approach.

2.2. Equity exposures are inherently riskier because they are by definition subordinated to all other claims in case of default. The Basel III proposals reflect this by requiring higher capital charges for equity exposures. The ECB is therefore concerned about the deviations from this sound principle in a number of areas, as it could expose banks to greater risks in their balance sheet. This holds in particular for (i) equity exposures to other members of the same group - including those holdings in financial sector entities that banks are allowed not to deduct from their own funds, (ii) institutional protection schemes, and (iii) long-term equity exposures lasting already for six years or longer, which also have an impact on the adequacy of risk weights on a consolidated level. This would not only lock in existing very low risk weights which do not reflect the inherent riskiness of equity exposures, but it would also prolong the absence of commensurate loss-absorption capacity within the group. Furthermore, (iv) the ECB considers that the lower risk weight for equity exposures under legislative programmes should be applicable if it is accompanied by the Basel requirement of investment restrictions ([11]) which can be taken into account in a comprehensive assessment of these programmes as well. Moreover, (v) the transitional provision applicable to equity exposures under the IRB Approach creates undue benefits as banks may apply risk weights that are not only lower than the ones currently applicable, but transitionally even lower than those which will finally be required. The ECB therefore suggests avoiding this transitional extraordinary drop in own funds requirements for equity exposures of institutions with permission for the IRB Approach below the level that will be permanently required in the future ([12]).

2.3. The ECB considers that the lower risk weight for retail exposures should be restricted to natural persons with total exposures below EUR 1 million, which should be determined by considering money already owed by clients and also undrawn credit lines. In addition, the necessary correction to own funds requirements for unconditionally cancellable credit lines should not be further delayed.

2.4. The Commission proposal also puts forward some changes to the revaluation methodologies for real estate properties, which would not be in line with the Basel standards. The ECB considers that any such revaluations should be conducted on a sound basis, in order to duly reflect changes in the valuation of the immovable collateral. Applying statistical methods for property valuation (instead of relying on a qualified independent valuer) could convey an inaccurate sense of safety. It could lead to a structural overestimation of the actual value not just of the individual properties but of the entire portfolio subject to the revaluation, which in turn lowers banks' resilience against overheating real estate markets. Also, increasing property values on the basis of average past values may imprudently allow banks to continue to rely on an increase in property values that might not be sustainable. This applies for instance quite clearly in the current environment of increasing overvaluation. These changes would add to the unwarranted effects of the transitional mechanism related to low-risk mortgage lending in the context of the output floor (as mentioned in paragraph 1.3) and could further increase banks' vulnerabilities in the real estate markets.

([11]) Please see CRE 20.59 of the Basel principles.

([12]) Capital requirements of bank-led financial conglomerates are also impacted by the provisions under points (iii) and (v) due to the so-called Danish compromise, according to which banks' holdings of capital instruments issued by insurance undertakings belonging to the same financial conglomerate may be risk weighted rather than deducted.

2.5. The Basel III framework has recalibrated its treatment of the specificities of SME and infrastructure investments through the application of risk weights empirically calibrated on data across the different institutions. The ECB therefore considers that the EU should adhere to the revised calibration.

3. **Operational risk**

3.1. The ECB welcomes the Commission's decision to implement the new standardised approach for operational risk in accordance with the Basel III framework, which aims to increase the comparability and simplicity of the calculation of own funds requirements.

3.2. While the ECB acknowledges that the Basel III framework offers the possibility to disregard historical losses for the calculation of capital requirements for operational risks, it regrets that the Commission did not opt for a recognition of these losses. The ECB considers that taking into account the loss history of an institution would entail more risk-sensitivity and loss coverage of capital requirements, addressing the divergence of risk profiles of institutions in highly sensitive issues such as conduct risk, money laundering or cyber incidents, and would provide greater incentives for institutions to improve their operational risk management. The ECB would therefore favour an implementation where the internal loss multiplier is determined by historical losses incurred by the institution and gradually introduced.

3.3. The ECB notes that supervisors already now are required to take into account the quality of risk management including loss history when defining the risk profile and capital requirements under the 'Supervisory Examination and Review Process' (SREP). In this regard, the usefulness of the proposed narrow obligation for supervisors to monitor at least every three years the quality of institutions' collection of historical losses should be assessed in light of the ultimate use of these historical losses in the framework, also given the fact that data quality is only one of many key considerations for managing operational risk.

4. **Market risk**

4.1. In its Opinion of 8 November 2017 on amendments to the Union framework for capital requirements of credit institutions and investment firms ([13]) ([14]), the ECB called for a sufficiently long implementation phase of the Basel standards on market risk resulting from the fundamental review of the trading book, taking also into account further changes to Basel standards. As internationally agreed rules have now been finalised, the ECB welcomes the Commission's proposal to turn the existing reporting requirement into own funds requirements.

4.2. The ECB notes that the proposal enables the Commission to change the calibration of capital requirements under the new market risk framework, as well as to postpone by two further years the implementation of this framework. This could allow the reduction of capital requirements, thus diverging from the Basel III standards. The ECB favours limiting these powers under the current proposal. The ECB considers it important that these standards are applied consistently at international level and calls for a faithful implementation of these internationally agreed standards by 2025. This would be important to provide clarity to institutions and ensure the soundness of the EU Single Rulebook, whilst avoiding negative implications for institutions' internal implementation plans and the application and approval process for internal models. Notwithstanding the above, it could be considered to have a Commission report on the implementation of the fundamental review of the trading book in other jurisdictions in 2025, which could serve as the basis for the Union legislators to prepare possible follow-up steps for ensuring a global level playing field.

([13]) See footnote 1 in SCO30.5.

([14]) Opinion CON/2017/46 of the European Central Bank of 8 November 2017 on amendments to the Union framework for capital requirements of credit institutions and investment firms (OJ C 34, 31.1.2018, p. 5).

4.3. The ECB welcomes the clarity provided by the Commission proposal on the minimum frequency applicable under the look-through approach when collective investment undertakings are included in internal models. At the same time, the ECB is concerned that such a treatment might lead to some risks not being included in the internal model, and therefore suggests to add a separate requirement to identify, measure and monitor the relevant risks in case no daily look-through approach is used.

5. **Credit valuation adjustment (CVA) risk**

5.1. The ECB notes with concern that the Commission's proposal does not reconsider existing exemptions adopted by the Union and recalls that these exemptions were assessed as a material non-compliance in the previous regulatory consistency assessment programme of the Basel Committee in 2014 ([15]). The ECB considers that these deviations are not justified from a prudential perspective, and leave institutions exposed to uncovered risks from their derivatives transactions with exempted counterparties ([16]).

5.2. The ECB nevertheless acknowledges the efforts made by the Commission to address issues stemming from open hedges for CVA of EU-exempted counterparties by allowing institutions to voluntarily include these counterparties in their regulatory CVA ([17]) and setting new reporting requirements for EU-exempted counterparties. While the latter might help foster better risk-management practices by institutions, it will neither improve their prudential situation nor induce any market discipline. To achieve the latter, a disclosure requirement should be implemented. Should the Union legislative bodies opt to maintain the existing exemptions, these proposals help to mitigate somewhat the negative effects of such exemptions, although they do not materially reduce the risks that these exposures entail for banks' balance sheets.

6. **IRB approach**

6.1. The ECB welcomes the proposed changes to the IRB approach for credit risk, in accordance with the final Basel III package ([18]), as they are deemed necessary to maintain risk sensitivity whilst significantly reducing the scope for unwarranted risk-weighted exposure amount (RWEA) variability. The ECB supports the proposal to disallow (i) the use of the advanced IRB ('A-IRB') approach for exposures to large corporates, exposures to credit institutions and investment firms and to financial institutions treated as corporates and (ii) the use of IRB for equity exposures. Likewise, the ECB supports the implementation of the input floors on risk parameters, which will ensure a minimum level of conservatism in model parameters, while reducing undue RWEA variability.

6.2. Moreover, the ECB supports the additional clarifications and enhancements related to the estimation of PD, loss given default (LGD) and credit conversion factors (CCF).

6.3. Nevertheless, the ECB would like to highlight some inconsistencies within the proposal, which may hinder the overall correct implementation of the requirements. In particular, in order to reduce the risk of misinterpretation, the ECB recommends to further align, across different articles of the amended CRR, the terms used to identify the size of corporate obligors, such as 'turnover', 'revenue' and 'sales' ([19]).

6.4. Furthermore, consistency needs to be ensured between default definition and the estimation and implementation of risk parameters. In particular, with regard to the implementation of the IRB approach at exposure **class level**, as introduced in the amended Article 148, the ECB would like to stress that, for retail exposures, this change creates the

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([15]) Basel Committee on Banking Supervision (2014) Regulatory Consistency Assessment Programme (RCAP) - Assessment of Basel III regulations - European Union, available on the website of the Bank for International Settlements at www.bis.org.

([16]) This was also highlighted by the European Banking Authority (2019) Policy advice on the Basel III reforms on credit valuation adjustment (CVA) and market risk, Recommendation CVA2: CVA exemptions, p. 9, available on the EBA website at www.eba.europa.eu

([17]) Please see the Commission's explanatory memorandum.

([18]) Please see in particular Basel III: Finalising post-crisis reforms (bis.org).

([19]) For example, in point (5a) of Article 142(1) 'large corporate' is defined by reference to the metric 'sales', while in the new Article 5(8) 'small and medium-sized enterprise' is defined by reference to the metric 'turnover'.

possibility to use the IRB approach for at least one of the exposure classes referred to in the new points (d)(i), (d)(ii), d(iii), (d)(iv) of Article 147(2). At the same time, for retail exposures, the ECB notes that the existing Article 178(1) allows institutions to apply the definition of default at the level of an individual credit facility rather than in relation to the total obligations of a borrower. In this regard, where the definition of default for retail exposures is defined at obligor level, the ECB recommends restricting the possibility to use the IRB approach either for all or for none of the exposure classes referred to in points (d)(i), (d)(ii), d(iii), (d)(iv) of Article 147(2), without prejudice of the possibility to request permanent partial use under the conditions specified in Article 150.

6.5. Moreover, as regards the new requirements for PD estimates, the ECB considers that further specification of the time horizon for rating assignments, as proposed by the final Basel III standards, would ensure adequate risk differentiation despite adverse economic conditions and increase the risk-weighted asset comparability across institutions. In addition, some differences between the requirements for PD estimates for retail exposures and the requirements for PD estimates for exposures to corporates and institutions have been introduced in the proposal, which may hinder a correct interpretation by institutions. In this context, the ECB recommends further streamlining the requirements in relation to these exposure types.

7. **Pillar III disclosures and reporting**

7.1. The ECB welcomes the objective of the new integrated hub managed by the European Banking Authority (EBA) for Pillar III disclosures by credit institutions, which aims to reduce the burden for institutions and to facilitate the use of Pillar III information by all stakeholders. Supervisors would benefit from a centralised disclosure hub as it would facilitate their role in ensuring the quality of Pillar III information. However, the ECB notes that the proposal applies different approaches in relation to the quantitative public disclosure of small and non-complex institutions (‘SNCIs’) and larger institutions. For SNCIs, the EBA will use supervisory reporting to compile the corresponding quantitative public disclosure on the basis of a pre-defined mapping. For larger institutions, a new reporting process for disclosures would need to be developed, which would lead to double reporting of data points, as Pillar III data requirements overlap with supervisory reporting. The EBA will then receive those new templates ‘in electronic format’ and will need to publish them on the same day it receives them. The ECB considers that the SNCIs approach for quantitative disclosures could be applied to all institutions, regardless of their size and complexity, with a view to reducing the reporting burden of all institutions. The ECB also notes that the timeline for the EBA to publish Pillar III information on the centralised hub does not allow for a reconciliation between supervisory reporting and Pillar III disclosure information to be performed, which could lead to additional workload for supervisors and confusion for investors and other users of Pillar III information. Under the same logic, to ensure consistency, the policy on resubmissions to the EBA envisaged in the amended Article 434a should not be limited to public disclosures but should also cover supervisory reporting.

7.2. Moreover, qualitative disclosures and some quantitative disclosures ([20]) cannot be extracted from supervisory reporting on the basis of the pre-defined mapping. This issue concerns both SNCIs and other institutions. Therefore, the process to submit such disclosures to the EBA should be clarified. Also, the ECB anticipates potential difficulties for the EBA to aggregate and compare qualitative information, due to its unstructured nature.

7.3. The ECB notes that the proposed amendments to the CRD envisage an amendment to Article 106 of the CRD to empower competent authorities to require non-SNCIs to submit the disclosure information to the EBA for its publication on a centralised EBA website. This amendment to the CRD would become superfluous if the CRR text is amended in the direction proposed in paragraph 7.1.

8. **Environmental, social and governance risks**

8.1. A better integration of environmental, social and governance (‘ESG’) risks into the prudential framework is crucial to increase the resilience of the banking sector. The ECB’s comprehensive comments on the proposals concerning ESG risks will be provided in its opinion on the proposed amendments to the CRD ([21]). Specifically, as regards the proposed amendments to the CRR, the ECB welcomes the Commission’s proposal to introduce harmonised

([20]) For instance, with reference to ESG and IRRBB disclosures.
([21]) See footnote 10.

definitions of ESG risks and values the stated intention to align the definitions with those proposed by the EBA in its report on management and supervision of ESG risks for credit institutions and investment firms ([22]). However, the ECB observes some divergences in the wording of the proposed definitions vis-à-vis the wording used by the EBA. The definitions of the EBA are broader, covering any negative impact and not just losses. Consequently, they more faithfully reflect the nature of ESG risks, which materialise, amongst others, via strategic and reputational risk. These risks can, for instance, drive lower business volumes and affect the sustainability and viability of the institution. Hence, the ECB proposes refinements to the wording of the definitions in order to ensure closer alignment with those proposed by the EBA.

8.2. The ECB welcomes the proposal to amend Article 430 requiring institutions to report their exposure to ESG risks to their competent authorities. As the reporting of relevant qualitative and quantitative information on ESG risks facilitates the supervision of these risks, the ECB invites the Union legislative bodies and the EBA to ensure that the proposed reporting requirement is implemented as soon as possible. The ECB notes that such reporting will be subject to the principle of proportionality as specified in recital 40 of the proposed amendments to the CRR.

8.3. The ECB agrees with recital 40 of the proposed amendments to the CRR which mentions that the exposure to ESG risks is not necessarily proportional to an institution's size and complexity. It is therefore imperative that markets and supervisors obtain adequate data from all entities exposed to those risks, independently of their size. Hence, the ECB strongly supports the proposal to apply the disclosure requirements concerning ESG risks under Article 449a to all institutions. The ECB supports the Commission's proposal to tailor the frequency and detail of the disclosure requirements to the size and complexity of the institutions in order to duly take into account the proportionality principle. The ECB notes that it is important to ensure adequate consistency between the disclosure requirements on ESG risks for institutions and other initiatives in the area of disclosures (e.g., the Corporate Sustainability Reporting Directive), in the sense that such initiatives should put institutions in a better position to adequately assess their risks and to comply with their own disclosure obligations.

8.4. The ECB also strongly supports the proposal to bring forward the deadline by which the EBA must submit its report on the prudential treatment of exposures subject to impacts from environmental and/or social factors under Article 501c. The ECB strongly supports this work and considers that bringing forward this report would further support the EU's contribution to the international policy debate on these matters.

Where the ECB recommends that the proposed amendments to the CRR are amended, a specific drafting proposal is set out in a separate technical working document accompanied by an explanatory text to this effect. The technical working document is available in English on EUR-Lex.

Done at Frankfurt am Main, 24 March 2022.

The President of the ECB
Christine LAGARDE

([22]) European Banking Authority (2021) EBA Report on management and supervision of ESG risks for credit institutions and investment firms (EBA/REP/2021/18) available on the EBA's website at www.eba.europa.eu