Consultation Response

Draft Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP) and supervisory stress testing under Directive 2013/36/EU

6 February 2025

The Association for Financial Markets in Europe (AFME) welcomes the opportunity to comment on **the Draft Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP) and supervisory stress testing under Directive 2013/36/EU**. AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society.

AFME is the European member of the Global Financial Markets Association (GFMA) a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) in Asia.

AFME is registered on the EU Transparency Register, registration number 65110063986-76. We summarise below our high-level response to the consultation, which is followed by answers to the individual questions raised.

Executive Summary/ general comments

With respect to the implementation of the guidelines AFME welcomed the confirmation during the consultation process that the changes proposed by the EBA will only take effect from the 2027 SREP cycle onwards. However, we note that the EBA encourages competent authorities to take revised guidance into account, and where possible, to introduce its elements at an earlier stage. We would ask to clarify that this should be subsequent to the publication of the final version of the Guidelines.

It is important in the intervening period that supervisors take the time to assess in particular overlaps arising from the implementation of CRR3. As per studies referred to in this paper, industry has identified both mechanistic and duplicative impacts of the implementation of Basel 3 in Europe which has an impact on banks' competitiveness. We recognise that the EBA has attempted to address this concern in the guidelines, but we think the requirement for supervisors to do this needs to be more explicitly integrated and transparent.

Likewise, we consider areas of overlap between P2R and P2G and macro-buffers which should be considered in this review process, in line with the more general simplification and competitiveness review that EU institutions are undertaking.

We would also like to take the opportunity of this review to call for a more holistic consideration of the SREP and to highlight that more aspects of the SREP should be open for industry consultation. For instance, while the EBA Guidelines provide transparency regarding considerations for risk, they do not account for how SREPs are operationalized by competent authorities. RFIs, ITRQs, CSTs all could benefit from increased input from the industry and the use of cybersecurity expertise within financial institutions to increase their effectiveness. Financial institutions would welcome an additional level of engagement before SREP scores are provided and the ability to speak to Joint Supervisory Teams if there are aspects of misinterpretation. Financial institutions are often caught unawares of risks expressed with supervisory letters and could have been engaged or remediated earlier.

Moreover, while we recognise the EBA has made efforts to streamline the guidelines, we would note there are still areas which will be challenging in practice for firms to implement - for example the

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reference to ~15 other documents at the start of Title 5 illustrates how the current approach is far from simple for practitioners. In addition, the streamlining applies mainly to removing outdated text – not to reducing supervisory activity. For instance, it is difficult to locate where the following statement is being reflected in the GLs and how it will be applied in practice: "*The minimum supervisory engagement model has been revised to allow for a lighter assessment of SREP elements or risk areas that are considered immaterial or unchanged since the last assessment".* We also note that proportionality seems to apply only to a subset of Category 4 institutions.

In addition, we have identified areas where the new wording is unhelpfully vague:

- In relation to conflicts of interest and risk awareness. Directive 2013/36/EU also requires competent authorities to establish the frequency and intensity of their SREP and take "into account the principle of proportionality" (Article 97), while the EBA is required to ensure there is consistency in the SREP (Article 107).
- In paragraph 29 (page 32), it is stated that "The risk scores aim to capture the likelihood that the risks to capital, liquidity and funding will have a significant impact on the institution". It is unclear what determines whether an impact is significant. Given the link to the risk scores, we deem essential that there be transparency and clarity as to what renders an impact significant.

The industry would welcome a greater level of transparency from competent authorities and the ability to engage more collaboratively regarding interpretations of RFIs or instrument outcomes.

We also believe that the EBA should explicitly highlight the need for benchmarking to be undertaken and relied upon only where there is a comparable peer group of financial institutions, to avoid overreliance on benchmarking as part of the SREP. Any benchmarking undertaken should be made transparent to the banks on an individual basis for all risk classes and sub-elements.

We also support supervisors assessing their expectations in comparison to other jurisdictions outside the EU, e.g. when it comes to scoring and calibrating the corresponding P2R contributions including potential P2R "add-ons" (for example in the case of leveraged lending), to ensure that banks supervised in the EU do not face unnecessarily stringent rules compared to other peer jurisdictions.

General comments on particular areas of measures which demonstrate negative interactions with other aspects of the regulatory framework, an overly burdensome, or duplicative SREP:

Internal governance: We would like to express our strong regret that the EBA approach considers the changes proposed in the corresponding internal governance guidelines are included as a given, as these are still under consultation and, as an industry, we have made significant efforts to contribute to that consultation process. The indication that no further changes to internal governance guidelines undermines the process of public consultation and we hope that should changes be made to these guidelines the EBA will align in the SREP. Key concerns from industry included that the EBA failed to include: sufficient respect for national frameworks; imposition of overly detailed requirements in some areas which went beyond their CRD mandate; and insufficient flexibility for different institutions' size, complexity, risk profile and governance structures.

Further we would emphasise the importance of aligning the implementation of the internal guidelines with the SREP guidelines which should ensure sufficient time is given for firms to meet those when making the SREP assessment.

ICT Risk: We support the decision to bundle the existing ICT SREP Guidelines into the overall SREP Guidelines. Yet we stress that competent authorities are able to utilize an array of existing supervisory instruments to inform their SREP and determine the ICT risk in a financial institution. The ECB requires supervised firms to submit the ITRQ under the SREP. The ITRQ is an extensive RFI, covering over 300 separate ICT Guideline-related RFIs covering the entire IT infrastructure of the financial institution. The DORA RMF (Risk Management Framework) Review, alongside, is a 40-50 page overview of a financial institution's approach to digital and ICT risk management. Both reports are excessively duplicative and do not reflect a proportionate or consistent application of the SREP for ECB-supervised institutions. While the instruments available to authorities have increased, however, it is unclear how these instruments contribute to each other, lead to the SREP score, and how they are chosen throughout a year. The ECB is able to force a financial institution to submit an ITRQ, a DORA RMF Review and face a substantive Request for Information via a Deep Dive or a targeted review request. This could include a further On-Site Inspection, a DORA Threat-Led Penetration Test and participation in a Cyber Stress Test. Authorities should leverage these existing tools when determining a bank's SREP score with regards to ICT risk, rather than requesting additional information. Additionally, clarity should be provided on how the respective instruments have determined the overall SREP evaluation.

Operational Resilience: The introduction of Operational Resilience is a broad concept in the SREP which does not align with the EU regulatory framework. While certain specific elements are included within the EU regulatory framework, such as DORA and the EBA's draft GLs on the management of third-party risk, these do not fully cover a holistic concept of Operational Resilience as it is expressed in the draft GLs. The requirements expressed in DORA are specifically targeted at Digital Resilience. The Third Party risk management requirements similarly have a clear and specific focus, rather than providing a framework for a holistic approach to Operational Resilience. Similarly, while some jurisdictions, such as Ireland, do have an Operational Resilience framework, the absence of a clear and consistent approach across member states will lead to fragmented and varying implementation, damaging the level playing field. Our members do not consider that the SREP Guidelines is an appropriate approach to develop and implement what amounts to a far-reaching, broad and highly demanding set of supervisory expectations. A change of this scope would likely justify separate, specific consultation with industry and possibly even require Commission Regulation to form the basis of it. These concerns are further compounded by the extremely broad and loose definition of 'Operational Resilience' leveraged by the EBA, which also deviates significantly from existing definitions of operational resilience in jurisdictions such as Ireland. Members would propose that references to operational resilience are restated to be framed around digital operational resilience, to ensure that it is aligned with the regulatory framework.

Questions:

General

Q1. What are the respondents' views on the overall amendments and clarifications made to the revised guidelines (across Titles 2 – 12)?

Members have made the following comments regarding subject matter, scope, definitions, level of application and implementation:

General:

The focus appears to be on processes rather than on risks. Recent international supervisory trends – including in the US – are moving toward more risk-centred, outcome-focused assessments that prioritise the substance of risk management over procedural form. We observe that a direction of travel cantered on outcomes tends to enhance both supervisory clarity and risk responsiveness. By contrast, a heavier focus on process may unintentionally create incentives to optimise documentation rather than strengthen real-world controls. Aligning supervisory expectations more closely with the materiality of risks, rather than the volume or granularity of documentation, would help ensure that banks deploy resources in ways that most effectively support stability and resilience.

Further, while we understand the added value of supervisory judgement, which grants flexibility in the activities of the Supervisor, the current Guidelines attribute a level of supervisory judgement to competent authorities which risks compromising comparability and a level playing field. Subjective valuation criteria may further hinder the understanding of supervisory outcomes, particularly when aspects of the methodology used by Supervisors to calculate scores remain unclear. Some examples throughout the Guidelines are:

- Para. **34** states that "*When assessing risks to capital, competent authorities should also consider relevant subcategories, e.g. concentration risk or country risk as part of the credit and counterparty risk assessment, as set out in Title 6. Depending on the materiality of any of these subcategories to a particular institution, competent authorities may decide to assess and score them individually*." Para. **35** adds that "*Competent authorities may use different methods to apply the risk scores, they could score 'risk' and 'risk management and controls' separately (resulting in an intermediate and final score) or score them together. Competent authorities may also aggregate all the risks to capital into an aggregate score*." In order to have reliable, predictable, comparable and understandable scoring, clear drivers should be defined. This is especially relevant because the outcome of such judgement does not only impact scores but also the P2R calculation as a consequence.
- Para. **306** states that "*The ICAAP and outcomes of its assessment should be taken into account by competent authorities as one of the key inputs for the identification and assessment of risks relevant for the institution. The determination of the amount of capital considered adequate and P2R on a risk-by-risk basis should take into account the ICAAP calculations if deemed reliable or partially reliable, as well as the outcomes of supervisory benchmarking and other relevant*

inputs as appropriate, including the supervisory judgement." Similarly to what is highlighted above, supervisory discretion also applies in the risk-by-risk evaluation, which means that authorities may rely less on the ICAAP. Since ICAAP calculations are performed by the bank and follow defined methodologies, reduced reliance on them introduces greater uncertainty and potentially less consistency across institutions regarding the determination of the amount of capital considered adequate and the P2R especially when benchmarking exercises are run between peers and comparability criteria are not disclosed to banks.

- Para **115** states that "*The title also identifies a set of subcategories within each risk category above, which need to be taken into account when risks to capital are assessed. Depending on the materiality of any these subcategories to a particular institution, they can be assessed and scored individually. Annexes I-IV present non-exhaustive lists of sub-categories for credit risk, market risk, operational risk and IRRBB that competent authorities should consider, when relevant*", while Para. **116** states that "*The decision on materiality depends on the supervisory judgement. […].*" Even in this case supervisory judgement should be linked to clear drivers which are at least commensurate to the category an institution falls into.
- Para **124** states that "*When performing their assessments, competent authorities should use all available information sources, including regulatory reporting, ad hoc reporting agreed with the institution […]".* Ad hoc reporting agreed with an institution opens the way to subjectivity, which consequently leads to an unlevel playing field. Moreover, given that the reports are mainly used for benchmarking amongst peers, in principle these shouldn't be bilateral but rather be homogeneous per cluster of peers. We recommend not including ad hoc reporting in the assessments.
- Para **35** states that "*Competent authorities may use different methods to apply the risk scores, they could score 'risk' and 'risk management and controls' separately (resulting in an intermediate and final score) or score them together. Competent authorities may also aggregate all the risks to capital into an aggregate score*.", which leaves large discretion to CAs in terms of the method to apply. Criteria should be determined for the sake of clarity and transparency in the methodology applied.

Moreover, we welcome the mechanism outlined in paragraph 80, which integrates the assessment of an institution's ability to effectively and in a timely manner remedy supervisory concerns into the broader evaluation of internal governance and institution-wide controls, including through an analysis of the institution's track record in addressing identified deficiencies. For such an assessment to be predictable and robust, it is essential that the deficiencies identified and/or supervisory concerns expressed by competent authorities to be considered "in scope" are clearly and objectively identifiable on the basis of a predefined supervisory taxonomy shared with the industry. Consequently, only deficiencies and supervisory concerns traceable and monitorable over time through a shared supervisory tool or platform, should be included in the overall assessment mentioned in para 80.

With reference to para. 39 (page 16), we suggest the following amendment:

Current SREP text (para. 39 (page 16)	**Proposed amendment**
The guidelines also reinforce transparency and communication regarding SREP outcomes. All relevant expectations for competent authorities regarding the communication related to the SREP have been now rationalised and grouped into a single Title. These expectations include, beyond the indication of material risk drivers supporting any additional own funds requirement (P2R and P2R-LR) that should be duly justified to institutions, a description of the overall outcome of the SREP, including a summary of the assessment and the overall SREP score. Furthermore, in line with the principle of risk-based supervision, where appropriate and depending on the specific remedial action required, competent authorities ***may*** disclose to institutions the SREP scores for relevant elements or sub-elements.	The guidelines also reinforce transparency and communication regarding SREP outcomes. All relevant expectations for competent authorities regarding the communication related to the SREP have been now rationalised and grouped into a single Title. These expectations include, beyond the indication of material risk drivers supporting any additional own funds requirement (P2R and P2R-LR) that should be duly justified to institutions, a description of the overall outcome of the SREP, including a summary of the assessment and the overall SREP score. Furthermore, in line with the principle of risk-based supervision, where appropriate and depending on the specific remedial action required, competent authorities ~~***may***~~ ***shall*** disclose to institutions the SREP scores for relevant elements or sub-elements.
Justification: It should be mandatory for authorities to disclose the SREP scores for relevant elements or sub-elements.	

Clearer methodology would also be needed in the determination of risk scores, and in particular in relation to inherent risk and adequate management and controls (ref. para 6.2.4). More precisely, the GLs do not contemplate circumstances where inherent risk is high while management and controls are adequate or vice versa. It is unclear how scoring is determined in these particular cases.

AML/CFT framework

It would be preferable to align transition sequencing EU AML / CFT Framework vs EBA Guidelines: application of SREP GLs as of 1 Jan 27 whilst new EU AML package will come into force by and large as of 10 July 2027. Direct supervision by AMLA of certain selected obliged entities will start as of 2028. Note, AMLA will be the new EU AML/CFT authority with direct supervision over approx. 40 obliged entities in EU as of 2028 and will also have indirect supervision over those not selected by coordinating national authorities AML/CFT supervision.

The implementation of the new EU AML package requirements implies tremendous efforts both for the new authority and for the obliged entities in the EU. An additional challenge for obliged entities is that most standards and guidance are yet to come. Therefore, it would be good for these aspects to be considered for any SREP assessment in calendar year 2027 and ensure close alignment with (new) AML/CFT authorities on common understanding what to consider as a material finding/shortcoming.

Definitions "AML/CFT supervisors" and "Money laundering and terrorist financing (ML/TF) risk" need to be aligned to new EU AML package for the time as of 10 July 2027. Current draft SREP GLs (still) point to AMLD5, not to the new EU AML package.

Q2. What are the respondents' views on the integration of ESG risks and factors across the existing SREP elements in the revised guidelines?

We agree with the statement under para.42,: "At the same time, the guidelines acknowledge that competent authorities should adopt a gradual approach to the assessment of social and governance risks, initially prioritizing environmental risks, recognizing the greater capacity to quantify climate-related risks compared to other types of environmental risks, while progressively enhancing supervisory practices as data availability, methodologies and analytical tools evolve". A gradual approach would be most suited to allow for progress to be made in the areas other than climate-risk before these are prioritized within the SREP. In addition, we note that while paragraph 42 makes this point in the consultation paper, it is not clearly articulated in the draft GL itself, meaning that this guidance may not be incorporated into supervisors' approaches. We would request that this is included explicitly within the final GLs to ensure that supervisors appropriately consider the sequencing and prioritization of each type of ESG risk. In this vein, the EBA should strengthen this so that competent authorities '***should'*** - rather than 'may'- adopt a gradual approach.

Regarding the specific ESG provisions, the GL should consistently emphasize that supervisory focus should be limited to ESG factors that give rise to material financial risks for the institution. Supervisory attention to E, S, and G factors should be phased in line with the availability of robust data, and only where these factors have a demonstrable impact on the institution's financial risk profile.

Indeed, from a more holistic general perspective we would stress the fact that the global standards set out by the Basel Committee do not include a mandatory ESG disclosure framework or the need for banks to set out climate transition plans. Mandating such requirements either via the CRR, EBA guidelines, or ECB supervisory expectations results in a gold-plating of the global standards and puts European firms at a competitive disadvantage when compared to global peers. Hence, ESG factors should only be considered in relation to material financial risks for the institution.

Moreover, we would emphasise the importance of reviewing banking legislation to reflect the changes being made via the recently agreed Omnibus I. Reducing burdens for non-financial companies cannot be achieved in practice without corresponding streamlining and simplification in financial sector-specific regulation. Likewise, SSM/ECB supervisory expectations and EBA guidelines (incl. SREP Guidelines) need to be holistically reviewed to ensure they do not go beyond what is legally permitted by statute. We recognise that these proposals would require changes to Level 1 texts and therefore involve a more complex legislative process, however, these changes are consistent with the need to simplify and streamline the regulatory burden for European banks and should be considered in the context of supervisors applying the GLs.

Additionally, the current drafting uses the terms "climate and environmental risk", "environmental risk" and "ESG" interchangeably without a clear justification as to why different terms have been used in

each instance. Reflecting the focus on C&E risks above, we would support aligning the wording to climate and environmental risk throughout the document.

As a broad point, further thought is required as to how to account for the fundamental disconnect between the time horizons considered for C&E risks (e.g. out to 10 years as set out in paragraph 69.c.) and the traditional strategic planning time horizons of 3-5 years. In particular, any projections out to 10 years includes significant amounts of uncertainty, which should be considered when incorporating determinations based on these projections into capital determinations. Supervisors should thus be mandated to take account of uncertainty of longer time horizons.

Paragraph 71.h. includes as a supervisory measure for the CA to require institutions to adjust their business strategy to address ESG risks including aspects of a banks' Prudential Transition Plan (PTP). Given the nascent nature of the PTPs and the fact that supervisory practices around their review are still evolving (thematic review of banks' transition planning in line with the CRD VI package is announced for 2027), requiring firms to adjust their strategies on the basis of an assessment of a firm's PTP appears premature. Moreover, such an approach could have significant negative impacts on firms' abilities to set their own strategies and could undermine the quality and credibility of both strategies and transition planning. We would therefore recommend at a minimum amending paragraph 71.h to frame the envisaged supervisory measure in a broader, principles-based manner reflecting the fact that, at this stage, the supervisory use of PTPs should remain high-level and exploratory until there is greater clarity, consistency, and experience from supervisors in reviewing them. Accordingly, we would suggest the following amendment to para 71.h:

Current SREP text (para 71(h), Page 46)	**Proposed amendment**
adjust its business strategy to address ESG risks, including by requesting a reinforcement of the targets, measures, and actions included in its plan to be prepared in accordance with Article 76(2) of Directive 2013/36/EU	adjust its business strategy to address ESG risks~~, *including* by requesting a reinforcement of the targets, *measures, and actions included*~~ in its plan to be prepared in accordance with Article 76(2) of Directive 2013/36/EU
Justification: Avoid over prescribing still nascent use of PTPs.	

Finally, there is a clear delineation in both the L1 legislation and the underlying EBA GLs between the PTP required under CRD Article 76(2), and broader transition plans. It is important that the Guidelines are clear to CAs that the PTPs do not require the institution to be aligned to either Union or Member State transition objectives or trajectories, to avoid the supervision under the SREP Guidelines leading to divergence between Members States / CAs in how this is supervised.

Title 2: SREP framework

Q3. What are the respondents' views on the enhanced simplification and proportionality aspects?

From a high level perspective we regret that no consideration has been given to the European simplification momentum, especially in the light of the recent Statement of Supervisory Operating Principles published by the FRB on the 18th of November. In this respect we recommend at a general level that European authorities including the EBA adopt a principle that each single envisaged new change or update in the regulatory / supervisory framework is systematically assessed on the basis of simplification. The number and frequency of updates is a sign that the regulatory / supervisory framework is not fit the purpose, creates uncertainty and captures resources that are deviated from actual risk management.

More specifically, with reference to para. 27 and 46, we deem useful that there be a further harmonization of assessment methodologies (i.e., underlying the assessment of SREP elements which are then reflected in the scoring system and in the consequent quantitative and qualitative measures). More precisely, there is the need for a stronger role of the EU Supervisory Colleges in harmonizing assessment methodologies across banks in different jurisdictions. Currently, methodologies differ, with reference to both SSM and extra-SSM subsidiaries (but particularly the latter), and cross-border groups experience varying approaches applied to their subsidiaries. The ECB could play a central role in such a dialogue fostering harmonization.

Further, supporting yearly Supervisory Examination Programmes (SEP) with prior impact assessment of their feasibility for both Supervised Entities and Competent Authority would allow orderly execution of activities on both sides, easing accurate supervisory conclusions.

Regarding categorization, we deem that it would be beneficial to include further clarity in respect of the criteria and methodological considerations that determine which category an institution falls into.

Regarding the increased emphasis in the documentation of findings on identifying the root causes of deficiencies, we acknowledge that this reflects a more analytical and forward-looking supervisory approach and can support more effective and sustainable remediation outcomes. A focus on underlying drivers, rather than solely on symptoms, is in principle beneficial to strengthening risk management and governance frameworks. At the same time, we consider it important that expectations regarding root-cause analysis are applied in a proportionate and risk-based manner, taking into account the materiality, complexity and context of the identified deficiencies. Root-cause analysis inherently involves judgment and should not be expected to deliver exhaustive or definitive causal certainty in all cases.

More generally, the effectiveness of an increased focus on root causes and more structural remediation will depend critically on supervisory culture. In particular, a sustainable shift towards deeper, judgment-based analysis will require moving away from a zero-failure mindset and towards an outcomes-oriented approach that recognises that not all risk can be eliminated. Without such a cultural shift, there is a risk that enhanced analytical expectations translate into more extensive procedural requirements or defensive documentation, rather than more effective risk reduction.

We note the description of supervisory engagement has shifted to highlight "ongoing supervisory activities" rather than merely "following a minimum engagement model," suggesting a more continuous and integrated approach. We would welcome clarity as to how predictability will be preserved in this more continuous model. While we acknowledge the intention to support a more risk-sensitive and dynamic approach, there may be a concern that this change may reduce predictability and weaken the transparency of supervisory expectations.

Regarding proportionality in risk scoring (Para 28 “When assigning risk scores, SREP elements scores and the overall SREP score, competent authorities should refer to the considerations outlined in the tables at the end of each relevant section and title of these guidelines, alongside the application of supervisory judgment. While these considerations serve as a baseline for assigning scores, they should not be interpreted as a mechanical checklist to be completed for each element, nor should they be seen as establishing a hierarchy of importance among the elements. Instead, they are intended to guide competent authorities in assigning scores by considering the interplay and relevance of the different elements within the specific dimension of the institution being assessed.”). The scoring should be holistic and risk-based ensuring that no single consideration, nor risk indicator disproportionately influences the outcome unless it poses significant prudential impact or concrete risk to supervised entity’s viability.

Q4. What are the respondents’ views on the introduction of a high-level escalation framework?

The introduction of a more flexible, judgment-based escalation framework has the potential to improve supervisory effectiveness, but its success will depend heavily on supervisory culture and providing assurance of equal treatment across the industry, rather than a unilateral application of benchmarking against an idealized standard. Because escalation decisions increasingly rely on qualitative assessments and the identification of “root causes,” a high degree of trust and open dialogue between supervisors and institutions is essential. Without this, there is a risk that discretion translates into inconsistent expectations or unnecessary escalation. To realise the intended benefits, the framework should be applied in a manner that is outcomes-focused, proportionate and predictable, avoiding box-ticking approaches and ensuring that interventions target genuinely material issues in a foreseeable way.

Specifically, regarding the high-level escalation ladder in the hands of the supervisor highlights the asymmetrical situation whereby the escalation with respect to the banking industry is limited to ABOR and to Court of Justice of the European Union with – as far as ABOR is concerned – very limited chances of revision of the decision. The high-level escalation framework may also give way to excessive supervisory discretion which hinders predictability. Clarity would be desirable in terms of the drivers which lead to the application of one supervisory measure or another (more precisely, clarity regarding the interaction between the actions identified in para. 21 and the considerations listed in para. 22 which said actions depend on). Although the discretion left to the Supervisor is understandable for the sake of flexibility based on specific cases, it is fundamental that the underlying drivers determining the Supervisor’s decision be clarified within the guidelines. We therefore encourage a more structured, transparent and predictable use of supervisory measures, including a clearer articulation of escalation mechanisms and their role within the overall SREP framework. The current design of the escalation framework risks moving in the opposite direction, by increasing subjectivity and reducing the clarity of supervisory communication to institutions. Indeed, the absence of clear criteria for transitioning between

escalation stages increases the risk of inconsistent application and makes it difficult for firms to anticipate supervisory expectations.

Moreover, the proposed configuration does not appear to be aligned with the direction outlined in the report *"Assessment of the European Central Bank's Supervisory Review and Evaluation Process – Report by the Expert Group to the Chair of the Supervisory Board of the ECB*", which points to the need to address the use of all the instruments in the Supervisory toolbox to limit the application of capital add-ons. Thus, it excludes the application of certain measures in addition to existing Pillar 2 requirements, potentially resulting in cumulative supervisory effects for institutions. Ensuring a shared/ clear distinction and a coherent interaction between escalation measures and capital-based requirements is therefore essential to preserve the consistency of the SREP framework and to avoid unintended double counting.

Another concern regarding the circumstance where different supervisory teams (e.g., JST, OSI, horizontal teams) investigate the same or overlapping topics addressing their requests to the very same resources in the bank, without sufficient consideration of how firms allocate their resources. It is fundamental that decisions regarding such topics are centralized, avoiding multiple supervisory actions for the same issue. In addition, the articulation between the different teams within the ECB is a point of attention notably for the potential conflicts between them as well as for their interactions that lead to ever more requests addressed to banks.

Finally, it should be emphasized that supervised entities shall at all times also have sufficient time to remediate any findings.

Title 3: Monitoring of key indicators

Q5. Do you consider the coverage and level of detail of this Title appropriate for its intended purpose?

Competent authorities should regularly revisit and back test the relevance of the selected key risk indicators or combination of those and benchmarks, especially if they are used to set determine risk level scores. We note that while benchmarks may provide valuable information, however, when made transparent to banks to avoid their perceived instrumentalization such benchmarks should not be considered as a relevant tool to impose supervisory requirements - these should be based on applicable European regulation (e.g. Capital Requirement Regulation, locally transposed Capital Requirement Directive). There should be a feedback loop from cases when the indicator has not been relevant for specific situations or business models to ensure adequate monitoring and SREP assessment methodologies.

Para **54.a** introduces a set of non-prudential indicators, including DORA (EU 2022/2554) indicators broadening the scope of risk monitoring beyond traditional prudential metrics without explicitly indicating such metrics in detail in the document.

Defining a set of monitoring indicators tailored to each category of institution (1 to 4) would enhance clarity, ensure consistency, and support a level playing field. In general, we deem that "key risk indicators" should be clearly defined and shared with institutions given the relevance of such indicators and the usefulness in orienting institutions' actions in the direction desired by competent authorities.

Title 4: Business model analysis

Q6. Do you consider the coverage and level of detail of this Title appropriate for its intended purpose?

Paragraph 60: This paragraph suggests that competent authorities conduct the BMA by using as a source of information "recovery plans" (e) and "resolution plans, including the work and outcome of resolvability assessment" (f). The industry would welcome clarifications on how the work entailed in Recovery and Resolution planning could impact BMA.

Indeed, the BMA is meant to provide understanding of the institutions' operations in current and forward-looking perspectives. We do not consider incorporating the very specific context of Recovery or Resolution planning is appropriate to draw on given these address crises of extreme severity.

Whereas the recovery scenarios are designed based on the institutions 'business model and could highlight their potential vulnerabilities or weaknesses, the recovery plan is meant to demonstrate the ability of a bank to overcome such crises even if it affects their BM. Accordingly it may not be a perfect angle to assess the BM itself, but rather the resilience it provides.

From another angle, the approach in Resolution Planning is scenario-agnostic, resolution plans are prepared and defined by the resolution authorities without any apparent link to the BM and, in our view, the resolvability assessment does not bring any added-value to the BMA.

Finally, the resolvability assessment is expected to impact the MREL or subordinated MREL calibration and not the P2R / P2G capital stack, which would introduce a clear double counting and have snowball effects due to the way MREL objectives are set. Hence, we strongly advice against such proposal.

Paragraph 68.c. refers to a CA's assessment of a firm's "operational resilience, by reviewing the institution's operational resilience framework". In line with our wider comments, there is no current regulatory requirement for firms to have a holistic operational resilience framework in place.

We also propose the following amendments:

Current SREP text (para 58, Page 39)	**Proposed amendment (new)**
Competent authorities should take into account ESG risks, in particular environmental transition and physical risks, when performing the BMA with a view to assessing the strategic and prudential implications of these risks for the business model of the institution in the short, medium and long term.	Competent authorities should take into account ESG risks, in particular environmental transition and physical risks, when performing the BMA with a view to assessing the strategic and prudential implications of these risks for the business model of the institution in the short ***(less than two years)*****,** medium ***(two to five years)*** and long term ***(more than five years)*****.**
Justification: Clarity on length of time horizon.	

Current SREP text (para 63, Page 41)	**Proposed amendment (new)**
Competent authorities should carry out a materiality assessment of the institution's business lines to determine the key areas for the BMA to focus on. When performing this assessment, competent authorities should take into account: [...](e) peer comparisons – whether a business line has performed atypically (been an outlier) compared to peers, where such information is available to competent authorities. To identify relevant peers for the BMA, competent authority should consider the rival product/business lines targeting the same source of profits/customers.	Competent authorities should carry out a materiality assessment of the institution's business lines to determine the key areas for the BMA to focus on. When performing this assessment, competent authorities should take into account: [...](e) peer comparisons – whether a business line has performed atypically (been an outlier) compared to peers, where such information is available to competent authorities. To identify relevant peers for the BMA, competent authority should consider the rival product/business lines targeting the same source of profits/customers. ***To identify relevant peers for the BMA, the competent authority should consider inter alia:*** • ***licencing and authorisations;*** • ***regulatory regimes and geopolitical risks of location of operations;*** • ***relevant capital regime and treatment;*** • ***global footprint including branch and subsidiary considerations;*** • ***business model;*** • ***business lines and offerings;*** • ***common client target market;*** • ***other appropriate factors to the sector in which the firm's operate.***
Justification: While we note the focus of this consultation is on SREP guidelines the same principles should apply to the quality assurance phase of regulatory stress testing, where financial institutions are frequently subjected to peer comparisons. Loss projections are often augmented in specific risk categories. However, the selected peer cohorts frequently fail to accurately represent the distinct business models or risk profiles of individual institutions, thereby generating elevated stress losses that may be disproportionate for certain financial institutions exhibiting lower risk profiles.	

Current SREP text (para 56, Page 39)	Proposed amendment (new)
This title specifies criteria for the assessment of the business model and strategy of the institution. […]. Following this assessment, competent authorities should determine: a. the viability of the institution's current business model, measured by its ability to generate acceptable returns (e.g. in terms of return on equity higher than the cost of equity and commensurate to the risk it takes on) over the next 12 months; b. the sustainability of the institution's strategy, based on of its ability to generate acceptable returns (e.g. in terms of return on equity higher than the cost of equity) over a forward-looking period of at least three years, as derived from its strategic plans and financial projections.	This title specifies criteria for the assessment of the business model and strategy of the institution. […]. Following this assessment, competent authorities should determine: a. the viability of the institution's current business model, measured by its ability to generate acceptable returns ~~***(e.g. in terms of return on equity higher than the cost of equity and commensurate to the risk it takes on)***~~ over the next 12 months; b. the sustainability of the institution's strategy, based on of its ability to generate acceptable returns ~~***(e.g. in terms of return on equity higher than the cost of equity***~~) over a forward-looking period of at least three years, as derived from its strategic plans and financial projections.

Current SREP text (para 60, Page 40)	Proposed amendment (new)
To conduct the BMA, competent authorities should use at least the following sources of quantitative and qualitative information: [...] c. regulatory reporting (COREP, FINREP and credit register, where available); d. internal reporting (management information, including – where available – contribution to the profitability by business lines, capital planning, liquidity reporting, operational resilience, internal risk reports); e. recovery plans;	To conduct the BMA, competent authorities should use at least the following sources of quantitative and qualitative information: [...] c. regulatory reporting (COREP, FINREP and credit register, where available); ~~***d. internal reporting (management information, including – where available – contribution to the profitability by business lines, capital planning, liquidity reporting, operational resilience, internal risk reports);***~~ e. recovery plans

Current SREP text (para 61, Page 40)	Proposed amendment (new)
In accordance with the engagement model set out in Title 2, competent authorities should focus their analysis on the most material assessment areas for the business model of the institution. The scope and depth of the BMA may be differentiated depending on the number and nature of supervisory reviews already performed on that institution. This assessment should in any case allow competent authorities to form a view on the overall institution's business model viability and sustainability	In accordance with the engagement model set out in Title 2, competent authorities should focus their analysis on the most material assessment areas for the business model of the institution. ***Most material assessment areas include business lines with a significant contribution to the institution's operations and key for the institution in terms of generating profits (or losses).*** The scope and depth of the BMA may be differentiated depending on the number and nature of supervisory reviews already performed on that institution. This assessment should in any case allow competent authorities to form a view on the overall institution's business model viability and sustainability"

Current SREP text (para 62, Page 40)	Proposed amendment (new)
Competent authorities should form a view on the materiality of the changes to the institution's business model compared to prior supervisory review, in order to decide the scope and depth of their assessment and the extent to which prior supervisory assessment can be used as a baseline for the new one	Competent authorities should form a view on the materiality of the changes to the institution's business model compared to prior supervisory review, in order to decide ***on the use of the*** ~~***scope and depth of their assessment and the extent to which***~~ prior supervisory assessment ~~***can be used***~~ as a baseline for the new one.
Justification:	

Current SREP text (para 62, Page 41)	Proposed amendment (new)

In forming such a view, competent authorities should in particular consider whether there have been relevant changes in the following areas of the institution: a. the previously communicated and assessed strategic plan; [...] c. governance and operations, including acquisition or merger of other entities, the opening of new business lines, and changes to IT infrastructure.	In forming such a view, competent authorities should in particular consider whether there have been relevant changes in the following areas of the institution: a. the previously communicated and assessed strategic plan; [...] c. governance and operations, including acquisition or merger ***or divestment*** of other entities, the opening of new business lines ***/geographies or the exit of existing business lines***, and changes to IT infrastructure. ***In the absence of any material changes, the prior supervisory assessment will be used as the baseline for the BMA***

Current SREP text (para 64, Page 41)	**Proposed amendment (new)**
Competent authorities should carry out a materiality assessment of the institution's business lines to determine the key areas for the BMA to focus on. When performing this assessment, competent authorities should take into account: [...] a. the relevance of the business lines in terms of generating profits/ losses, including the geographies, that are most material based on their contribution to the overall revenues/costs in the P&L, risk (e.g. based on TREA or other measures of risk) and/or organisational/statutory priorities (e.g. specific obligations for public sector banks to offer specific products); […] e. peer comparisons – whether a business line has performed atypically (been an outlier) compared to peers, where such information is available to competent authorities. To identify relevant peers for the BMA, competent authority should consider the rival product/business lines targeting the same source of profits/customers"	Competent authorities should carry out a materiality assessment of the institution's business lines to determine the key areas for the BMA to focus on. When performing this assessment, competent authorities should take into account: [...] a. the relevance of the business lines ***in line with current external reporting of segments and geographies by the institution. The relevance will be assessed*** in terms of generating profits/ losses, including the ***segments and*** geographies, ~~***subsidiaries/branches and product lines***~~ that are most material based on their contribution to the overall revenues/costs in the P&L, risk (e.g. based on TREA or other measures of risk) and/or organisational/statutory priorities (e.g. specific obligations for public sector banks to offer specific products); […] ~~***e. peer comparisons – whether a business line has performed atypically (been an outlier) compared to peers, where such information is available to competent authorities. To identify relevant peers for the BMA, competent authority should consider the rival product/business lines targeting the same source of profits/customers"***~~

Current SREP text (para 64, Page 41)	**Proposed amendment (new)**
Competent authorities should perform an analysis of quantitative features of the institution's current business model to assess its ability to generate acceptable profits in the short, medium and long term, given the institution's risk appetite and its funding and capital structures. Areas for analysis by competent authorities should include: c. risk appetite and tolerance levels, by assessing the formal limits put in place by the institution by risk type and its adherence to them to understand the risks that the institution is willing to take to drive its financial performance and to ensure operational resilience. This should also cover the impact tolerance for ICT disruptions.	Competent authorities should perform an analysis of quantitative features of the institution's current business model to assess its ability to generate acceptable profits in the short, medium and long term, given the institution's risk appetite and its funding and capital structures. Areas for analysis by competent authorities should include: ~~***c. risk appetite and tolerance levels, by assessing the formal limits put in place by the institution by risk type and its adherence to them to understand the risks that the institution is willing to take to drive its financial performance and to ensure operational resilience. This should also cover the impact tolerance for ICT disruptions.***~~

Current SREP text (para 65, Page 42)	Proposed amendment (new)
Competent authorities should perform an analysis of qualitative features of the institution's current business model to understand its success drivers and key dependencies. Areas for analysis by competent authorities should include: [...] a. business environment, by assessing the forward-looking environment in which the institution operates based on its main or material geographic and business exposures. As part of this assessment, competent authorities should develop an understanding of the key macroeconomic variables, market trends, the competitive landscape and other relevant developments (such as regulatory and legal changes);" […] c. franchise and areas of competitive advantage, by assessing reputation of the institution and the strength of relationships with customers, suppliers and partners, as well as whether there are areas in which the institution has a competitive advantage over its peers; and"	Competent authorities should perform an analysis of qualitative features of the institution's current business model to understand its success drivers and key dependencies. Areas for analysis by competent authorities should include: [...] a. business environment, by assessing the forward-looking environment in which the institution operates based on its main or material geographic and business exposures. As part of this assessment, competent authorities should develop an understanding of the key macroeconomic variables, market trends, ***~~the competitive landscape~~*** and other relevant developments (such as regulatory and legal changes);" […] ***~~c. franchise and areas of competitive advantage, by assessing reputation of the institution and the strength of relationships with customers, suppliers and partners, as well as whether there are areas in which the institution has a competitive advantage over its peers; and"~~***

Current SREP text (para 66, Page 42 and 43)	Proposed amendment (new)
Competent authorities should complement the analysis by carrying out a forward-looking analysis (both quantitative and qualitative) of the institution's financial projections and strategic plan to understand the underlying assumptions and dependencies, plausibility and riskiness of its business strategy. Areas for analysis by competent authorities should include: [...] c. execution capabilities, by assessing management's track record on delivering previous strategies and forecasts, as well as the overall ability of the institution to make use of its positioning competitive advantages and success drivers in carrying out its business and to generate returns in an effective way. [...] As part of this assessment, competent authorities should consider: i. the adequacy of the cost allocation framework - in terms of adequacy to reflect the profitability of business lines/units; ii. the fund transfer pricing framework – in terms of adequate determination of the net income component for each business line/unit, product and customer; iii. the loan pricing framework – in terms of adequate governance of the loan pricing process, pricing methodology, appropriate consideration of all the loan pricing components and ex post profitability monitoring and reporting of product pricing decisions; and iv. the revenue sharing framework between institutions established in the Union that are part of third-country groups and other entities of that group established outside of the Union and not consolidated by the EU parent undertaking – in	Competent authorities should complement the analysis by carrying out a forward-looking analysis (both quantitative and qualitative) of the institution's financial projections and strategic plan to understand the underlying assumptions and dependencies, plausibility and riskiness of its business strategy. Areas for analysis by competent authorities should include: [...] c. execution capabilities, by assessing ***~~management's track record on delivering previous strategies and forecasts, as well as~~*** the overall ability of the institution to make use of its positioning ***~~competitive advantages~~*** and success drivers in carrying out its business and to generate returns in an effective way. [...] ***~~As part of this assessment, competent authorities should consider:~~*** ***~~i. the adequacy of the cost allocation framework - in terms of adequacy to reflect the profitability of business lines/units;~~*** ***~~ii. the fund transfer pricing framework – in terms of adequate determination of the net income component for each business line/unit, product and customer;~~*** ***~~iii. the loan pricing framework – in terms of adequate governance of the loan pricing process, pricing methodology, appropriate consideration of all the loan pricing components and ex post profitability monitoring and reporting of product pricing decisions; and~~*** ***~~iv. the revenue sharing framework between institutions established in the Union that are part of third-country groups and other entities of that group established outside of~~***

terms of fair sharing of P&L between entities or business lines taking part in the life cycle of transactions, and of the adequate governance.”	***~~the Union and not consolidated by the EU parent undertaking – in terms of fair sharing of P&L between entities or business lines taking part in the life cycle of transactions, and of the adequate governance.~~”***

Current SREP text (para 67, Page 43)	**Proposed amendment (new)**
In the analysis, competent authorities should consider any indications that the business model and activities give rise to increased ML/TF risks, including crypto-asset activities or deposit taking or establishment or use of legal entities in high-risk third countries, as identified in [...]”	In the analysis, competent authorities should consider any indications that the business model and activities give rise to increased ML/TF risks, ***~~including crypto-asset activities~~*** or deposit taking or establishment or use of legal entities in high-risk third countries, as identified in [...]”

Current SREP text (para 68, Page 44)	**Proposed amendment (new)**
Competent authorities should assess the resilience of the institution’s business model to external shocks and its adaptability to structural changes in terms of its capacity to absorb them and adapt to exogenous factors that could threaten business and strategic objectives. Areas for analysis by competent authorities should include: […] e. crypto-asset activities, if applicable, by assessing the institution’s exposures to crypto-assets or the provision of crypto-asset services and any other activities related to crypto-assets, considering the related evolving risks”	Competent authorities should assess the resilience of the institution’s business model to external shocks and its adaptability to structural changes in terms of its capacity to absorb them and adapt to exogenous factors that could threaten business and strategic objectives. Areas for analysis by competent authorities should include: […] ***~~e. crypto-asset activities, if applicable, by assessing the institution’s exposures to crypto-assets or the provision of crypto-asset services and any other activities related to crypto-assets, considering the related evolving risks~~”***

Current SREP text (para 69, Page 44)	**Proposed amendment (new)**
Based on the performed analysis, competent authorities should form, or update, their view on the following elements: c. sustainability of the institution’s strategy, as defined in paragraph 56, based on the plausibility of its strategic plan and financial forecasts and given the supervisory assessment of the projected financial performance”	Based on the performed analysis, competent authorities should form, or update, their view on the following elements: c. sustainability of the institution’s strategy, as defined in paragraph 56, ***~~based on the plausibility of its strategic plan and financial forecasts~~*** ***~~and~~*** ***~~given~~*** the supervisory assessment of the projected financial performance”

Title 5: Assessing internal governance

Q7. What are the respondents’ views on the updated section 5.7 “ICT systems, risk data aggregation and risk reporting”?

Paragraph 92.g. refers to “appropriate and consistent links between the business strategy, risk strategy, digital operational resilience strategy”. During the development of the technical standards under DORA, it was made clear that there is no requirement for institutions to evidence their DORA / ICT strategy within a stand-alone document, as long as the requirements could be evidenced within existing or other strategies. The current drafting of the GLs could lead to supervisors requiring a separate document on the insitution’s DORA strategy in contravention to the prevailing approach.

The newly added sub-chapter will also require the financial institution to provide an ICT-specific view even for risk types covering ICT and non-ICT aspects.

Q7bis. Do you consider the coverage and level of detail of this Title appropriate for its intended purpose?

We are concerned that, with the EBA Guidelines on Internal Governance (and the ECB Guide on Governance and Risk Culture) both currently going through amendment, following consultation periods, it is difficult to comment on these aspects of the draft SREP GLs. The draft SREP GLs work from the draft

EBA Guidelines on Internal Governance as consulted on; however, we raised significant concerns to the EBA on that draft. Our full consultation response is available[1], with our key concerns being that draft Guidelines:

- Failed to sufficiently acknowledge national frameworks and corporate law and regulatory systems, in particular and for example, by removing the acknowledgement the legitimacy of one-tier board systems and imposing requirements that undermine the principle of collective responsibility embedded in several Member States' legal frameworks, as well as other governance schemes foreseen and allowed by national company law;
- Imposed overly detailed and costly provisions on mapping of duties and individual statements of responsibility following CRD6 requirements, especially given that these requirements are pending incorporation in local law of Member States no political agreement in detail was reached regarding these topics at CRD level and the EBA received no mandate regarding them;
- Required further proportionality and flexibility to ensure that governance expectations are tailored not only to institutions' size, complexity, and risk profile, but also to the diversity of board structures recognised under EU and national legislation; and
- Required sufficient time for implementation and coordination with other EU initiatives.

In light of these, we strongly encourage the EBA to ensure that there is alignment on the content and of implementation deadlines, with EBA Guidelines on Internal Governance (and any other Guidelines currently under review) to be finalised with a sufficient implementation period before they are included in any SREP assessment. In addition, if the final EBA Guidelines on Internal Governance are significantly different from the draft consulted on, it may be appropriate to allow additional comment at that time on the accompanying SREP provisions.

In relation to the content of the draft SREP GLs Title 5, we encourage the EBA to consider how the overall simplification agenda of the EU authorities can be applied here. For instance, we note that the section begins with a list of 15 different sets of guidelines covered by the subject matter of this section, to which users should refer. This makes the use of the draft SREP GLs a complex matter for practitioners.

Moreover, we would like to stress the need for close coordination of remedies between SREP competent authorities and (new) AML/CFT supervisors for cross-cutting deficiencies to avoid conflicting or duplicative supervisory measures, i.e. current SREP GLs and new draft on SREP GLs do not draw a clear picture to avoid "double-counting", duplications / a clear understanding of competences.

The EBA Guidelines also state that competent authorities should "assign different categories to subsidiaries" (11a) and include one consideration of subsidiaries within the internal governance guidance. Subsidiary financial institutions have been informed that their subsidiary status results in a unimprovable SREP ICT risk score due to perceived higher inherent risk. AFME rejects that SREP scores should be unimprovable and believes this discourages financial institutions from improving their ICT risk management Subsidiaries retain the autonomy to implement additional controls and governance structures if necessary to comply with local regulatory requirements, where relevant in alignment or consultation with the parent company. Cybersecurity risk management (similar as other non-financial risks) does not constitute the same form of risk as prudential or capital requirements (i.e. capital flight concerns or capitalization of the individual entity) – enforced subsidiarization of all forms of cybersecurity risk management would remove the benefits to elements of centralization and increase the level of risk to the subsidiarized entity. The ICT Guidelines and the SREP scores do not sufficiently reflect best practices for subsidiaries or multilateral financial institutions and need to develop a more nuanced perspective concerning the inherent risk or effective cybersecurity controls. Inherent risk score should not be de facto unimprovable due to perceived risk associated with being a subsidiary.

Moreover, in paragraph 83(c), it is not clear what should be covered by "*and other emerging risks*". We propose to delete "*and other emerging risks*" as it is too broad. We also think it sufficient that the management body is sufficiently informed on trained on ICT and ESG risks.

Current SREP text (para 83(c), Page 49)	**Proposed amendment (new)**
c. the management body ***collectively has an appropriate understanding of the*** institution's business model and activities ***and keeps up to***	c. the management body ~~***collectively has an appropriate understanding of the***~~ ***be regularly made aware of*** the institution's business model

[1] https://www.afme.eu/media/uhsj5jvv/251106-afme-response-to-eba-cp-on-internal-governance-gls-final.pdf

date with sufficient knowledge and skills on relevant risks, including on ICT risks, ESG risks ***and other emerging risks, through regular training;***	and activities ~~***and keeps up to date with sufficient knowledge and skills***~~ ***as well as regularly trained on*** relevant risks ***which could change over time***, including on ***e.g.*** ICT risks and ESG risks; ~~***and other emerging risks, through regular training;***~~
Justification: Emerging risks is too broad a concept and should instead refer to risk that could change over time.	

Also in paragraph 104, it is provided that competent authorities should determine whether the management body of the institution and senior management review and approve the institution's risk data aggregation and risk reporting framework. We propose to delete "*and senior management*" as only the Management Body can take decisions.

Current SREP text (para 104, Page 55)	**Proposed amendment (new)**
Competent authorities should determine whether the management body of the institution ***and senior management review*** and approve the institution's risk data aggregation and risk reporting framework, including deployment of adequate resources to support these efforts. Competent authorities should also assess whether the institution's risk data aggregation capabilities and risk reporting practices are independently validated by the second line of defense.	Competent authorities should determine whether the management body of the institution ~~***and senior management review***~~ and approve***s*** the institution's risk data aggregation and risk reporting framework, including deployment of adequate resources to support these efforts. Competent authorities should also assess whether the institution's risk data aggregation capabilities and risk reporting practices are independently validated by the second line of defense.
Justification: delete "*and senior management*" as only the Management Body can take decisions.	

Title 6.2: Assessment of credit and counterparty risk

Q8. Do you consider the coverage and level of detail of this Title appropriate for its intended purpose?

The revised guidelines include an appendix providing a detailed risk taxonomy by risk type (Credit, Market, operational, IRRBB). The taxonomy is partial but, within Pillar 1 risk categories, addresses Pillar 2 risks (such as credit concentration). On some elements, the taxonomy uses a regulatory approach, for ex equity risk or real estate risk are aggregated within credit risk. Banks would expect a taxonomy to be more economic and if possible consistent with ECB's.

Title 6.3: Assessment of market risk

Q9. Do you agree with the treatment proposed to account for transfer pricing risk in the context of trading book activities? Please elaborate.

Ref to answer on Q8 regarding taxonomy.

Title 6.4: Assessment of operational risk

Q10. What are the respondents' views on the integration of the EBA GL on ICT risk assessment under the SREP (EBA/GL/2017/05) and DORA aspects?

Ref also to answer on Q8 regarding taxonomy.

In general, ICT risk is covered repeatedly throughout the Guidelines, and a rationalization would be useful and more efficient. Moreover, the SREP Guidelines place a significant degree of importance on the quantification of ICT risk and the utilization of a financial institution's reporting metrics. AFME recommends that greater consideration is given to the other SREP instruments available to competent authorities and the experience of supervision is directly inputted to the risk score of a financial institution. An over-reliance on internal reporting metrics, or quantification, directly correlates to a higher risk score to larger financial institutions with strong reporting cultures. More conservative financial institutions, who may identify a higher number of ICT risks, choose lower impact tolerance levels or report more frequently, would be penalized as having higher inherent risk. The EBA's Guidelines therefore directly

discourage accurate metrics through a justified expectation of higher levels of supervision. For instance, the following metrics are stated as directly influencing ICT risk, despite the counterfactual that high metrics relate to a strong cybersecurity culture within a financial institution with a stronger understanding of its ICT risk or controls:

- DORA operational incident reports: Incident reporting numbers, if viewed absolutely, correlate to the size of the financial institution or the propensity of certain financial services to meet DORA criteria (e.g. payment services consistent meet the geographical spread criteria). The Guide includes multiple references to incident reporting figures as a basis for higher supervision and further nuance should be provided.
- Reporting to management bodies: The severity level or frequency of reporting to management bodies will vary according to each financial institution and could be reflective of both higher ICT risk or an effective cybersecurity controls culture.

Other specific comments:

- Paragraph 197 states that, "Competent authorities should assess the materiality of operational risk arising from third-party service providers". This goes against the fundamental approach to both the assessment of third-party service providers and established supervisory practice. Requiring supervisors to independently assess the materiality of risks associated with third parties would be a significant operational demand on both supervisors and firms and would likely lead to the CA coming to inaccurate conclusions. It would be more appropriate for CAs to assess the institution's approach to determining the materiality of operational risk arising from TPSPs.
- In relation to third party risk management, we also note the emphasis placed on subcontracting chain length and complexity as drivers of concentration risk within the inherent operational risk assessment. Whilst we recognise that complex or layered subcontracting arrangements can, in practice, make it more difficult for firms and supervisors to identify, monitor and manage underlying dependencies, length and complexity of the supply chain, in itself, is not determinative of concentration risk. Concentration risk is driven by a range of factors such as the level and criticality of exposure, substitutability, and the degree of reliance on a limited set of providers. We would therefore welcome clarification that subcontracting chain complexity should be considered by supervisory authorities as a contextual factor, rather than a standalone proxy for concentration risk. Given the clear and increasing supervisory focus on concentration risk, we consider it important that firms are provided with greater transparency and clarity on the supervisory approach to assessing concentration risk in practice, including how subcontracting complexity is weighed alongside these other factors. This would enable firms to better align their risk management approaches with supervisory expectations. Paragraph 208 refers to CAs using reports of significant cyber threats as a source of information. We would emphasise that the reporting of significant cyber threats is on a voluntary basis under DORA and may not be available for all CAs. We would welcome the EBA clarifying that this may be a source of information where available.
- Paragraph 216: The factors competent authorities should consider in 216(a-o) include a significant range in terms of their impact on the ICT risk of a financial institution, which could both vary deeply across each institution or be highly subjective to each competent authority. For instance, (i) states that a financial institution's "adoption and integration of digital technologies" should be considered. An institution could have highly effective controls in place and be utilizing digital technologies that provide a higher degree of resilience than former legacy systems. The opposite could be true, and the same level of subjectivity could be applied to (b), (c), (e), (g), (h), (m), (n) and (o). Each factor could demonstrate an effective controls culture or the exact opposite. Factor (f) includes the "recommendations and opinions of Lead Overseers (LO)," which would constitute the opinions of the LOs concerning the risk associated with Critical Third Party Providers (CTPPs). The risk associated with CTPPs, while important, do not consider the mitigating controls, commercial relationship or dependency an individual financial institution would have with that CTPP. A financial institution's inherent ICT risk influences their SREP scores and has a direct impact on an institution's supervision, therefore AFME encourages greater considerations of the factors a competent authority should take into account and provide a greater level of detail regarding why those factors relate to risk.
- Paragraph 216.i. also states that CAs should review the institution's level of adoption and integration of digital technologies. Digital technologies is not a clearly defined term and could refer to anything from the use of digital calculators to the deployment of sophisticated AI. Furthermore, a general expectation that the CA review firms' use of digital technologies, without links to a specific desired outcome, risks overstepping the boundary of supervisory responsibility into taking a direct hand in firms' IT Strategy.

- Paragraph 216.o. also requires CAs to review institutions' vulnerabilities, however it does not define what sort of vulnerabilities this refers to. For example, software vulnerabilities are usually normally very point-in-time and often resolved quickly after they are identified. As such, the specific vulnerabilities which might exist at the point of the SREP are unlikely to be representative of the steady state. Furthermore, the sharing of vulnerabilities outside of the institution can pose a material security risk to institutions, as any sharing of this information increases the likelihood that these vulnerabilities will become known to bad actors. We would propose that instead, CAs should consider the institution's approach to identifying the external threat environment, rather than seek to identify the threats and vulnerabilities themselves.
- Paragraph 217 states that CAs should "form an opinion on which ICT systems and ICT services support critical or important functions". In line with our other comments, this runs counter to established supervisory processes. It would be more appropriate for CAs to review the approach that institutions have taken to determining which ICT systems and ICT services support their CIFs.
- The title, "Identification and mapping of material ICT risks to critical ICT systems and ICT services" on page 89 uses terminology which is not present in the existing regulatory framework. Rather than referring to critical ICT systems and ICT services, we would propose that this be amended to "ICT systems and ICT services supporting critical or important functions".
- Paragraph 218 states that CAs should "form an opinion on the material ICT risks that can have a significant prudential impact on the institution's ICT systems and services that support critical or important functions". Similar to our other comments, it would be more appropriate for the CA to review the institution's approach to determining the material ICT risks to which they are exposed.
- In para 221 the proposed amendment's specific emphasis on these two elements risks narrowing the focus from the institution's overall material risks, which should form the foundation of its strategy and risk appetite. We therefore propose this deletion: *Para 221. For this assessment, among other factors, competent authorities should take into account the role of the management body in setting, approving, implementing and reviewing the operational risk strategy and appetite* ***(including ICT risk appetite and digital operational resilience strategy),*** *the strategy's sufficient coverage and appropriateness with respect to the nature and materiality of the institution's operational risk profile.*
- Para 225: Recommend considering consolidating this content with Section 6.4.2.2 (Model Risk) to eliminate repetition: (*Para 225. When models are used for decision-making purposes (e.g. product pricing, AI models, evaluation of financial instruments, client profiling etc.), competent authorities should assess whether there is a sound internal validation process and/or model-review process to identify and mitigate model risk (other than regulatory models).*
- Paragraph 232.c. does not recognise that the management body may delegate some of its responsibilities for follow-up and response to audit findings, nor does it consider the materiality of audit findings in question. We would propose that this be amended to read, "adequate follow-up and response by the management body or its delegates on material ICT related audit findings and findings reported under Article 13(5) of DORA". Additionally, Paragraph 232 in the assessment of an institution's ICT risk management framework states that the institution should have assigned the responsibility of "managing and overseeing" ICT risk to an independent control function. An independent function cannot "manage" ICT risk, and this should be undertaken by the first line of defence. In this respect, we strongly encourage the word "manage" is removed as this is not reflective of the role of an independent control function.

Q11. What are the respondents' views on the introduction of operational resilience (section 6.4.5)?

As stated in the overarching comments, the introduction of Operational Resilience as a broad concept in the SREP does not align with the EU regulatory framework. While certain specific elements are included within the EU regulatory framework, such as DORA and the EBA's draft GLs on the management of third-party risk, these do not fully cover a holistic concept of Operational Resilience as it is expressed in the draft GLs. The requirements expressed in DORA are specifically targeted at Digital Resilience. The Third-Party risk management requirements similarly have a clear and specific focus, rather than providing a framework for an holistic approach to Operational Resilience. Similarly, while some jurisdictions, such as Ireland, do have an Operational Resilience framework, the absence of a clear and consistent approach across member states will lead to fragmented and varying implementation, damaging the level playing field. Our members do not consider that the SREP Guidelines is an appropriate approach to develop and implement what amounts to a far-reaching, broad and highly demanding set of supervisory expectations. A change of this scope would likely justify separate, specific consultation with industry and possibly even require Commission Regulation to form

the basis of it. These concerns are further compounded by the extremely broad and loose definition of 'Operational Resilience' leveraged by the EBA, which also deviates significantly from existing definitions of operational resilience in jurisdictions such as Ireland. Members would propose that references to operational resilience are restated to be framed around digital operational resilience, to ensure that it is aligned with the regulatory framework.

More specifically, paragraph 245 refers to monitoring of the maturity level of an institution's operational resilience. Maturity isn't clearly defined in this context, and there is a risk that this could decouple the expectations from the degree of risk faced by the institution. A firm's approach to resilience should be proportionate to the risks to which it is exposed. As such, we would propose that the wording be updated to instead refer to the effectiveness or the appropriateness of the institution's operational resilience.

Title 6.5: Assessment of IRRBB and CSRBB
Ref to answer on Q8 regarding taxonomy.

Q12. What are respondents' views on the additional section on CSRBB and the combined score for IRRBB and CSRBB?

Whilst there is understanding why CSRBB was added, the IRRBB and CSRBB are traditionally and more holistically covered by ICAAP. In addition to criteria in Table 12, potential double counting between IRRBB & CSRBB assessment and ICAAP assessment should be avoided; and / or ICAAP coverage of the risk in BB should be considered.

To be consistent with the above, IRRBB and CSRBB should be combined for the SREP scoring process while being transparent on the contributions of each component. Attention should be paid to avoid ever increasing the complexity of the SREP process, that isolated scores would contribute to and consideration should be paid to CRD requirements for IRRBB (identify, evaluate, manage, and mitigate the risks) and CSRBB (assess and monitor the risks). The SREP approach should specifically accommodate and recognise divergences between firm scoping of credit spread sensitive instruments when comparing peer results. The ECB Short-Term Exercise (STE) for SREP (tab 8) diverges from banks' internal management practices and should be amended to align with bank practices. Finally, it should be noted that CSRBB is considered exclusively in the EU's regulatory / supervisory framework, attention should therefore be paid to avoid creating additional burden on European banks and magnify the uneven playing field.

Title 7: SREP capital assessment

Q13. What are the respondents' views on the proposed assessment of the interaction between Pillar 1 and Pillar 2 requirements and on the proposed approach for operationalizing concerning cases where an institution becomes bound by the output floor?

We welcome the EBA's efforts to address interactions and thus potential overlaps between different layers of capital requirements. It is generally positive that the Guidelines aim to address interactions between Pillar 1 and Pillar 2 requirements beyond the Output Floor. We support the recommendation that competent authorities should evaluate the interaction with P2R when changes in the regulatory framework have a material impact on the institution's capital profile.

In addition, we believe that the EBA should consider a more integrated, risk-by-risk assessment of overlaps between P1 and P2. More broadly, a reassessment of P2R is **warranted where changes to the P1 framework led to a material increase in RWAs**. If the revised P1 framework is designed to capture risks more comprehensively than the prior framework, maintaining the P2R at the same level without recalibration risks unintended double counting. Indeed, if the risks were not captured through P2, it would imply that under the previous supervisory approach the risks weren't being captured at all, which seems unlikely. We therefore support a structured, risk-by-risk review within the "Risks to Capital" Section in the Guidelines to assess those risks where there are P1/P2 interactions and ensure P2 remains focused on residual risks not adequately captured in P1.

Further, we welcome and emphasize the EBA's addition in **paragraph 297**, which states that competent authorities should assess the impact of relevant changes to the regulatory framework for determining P1R on P2R. Unfortunately, banks have observed that this assessment has not been implemented across the board when CRR3 was implemented. Indeed, as annexes to this CP response, AFME has included two studies undertaken with GARP and a cohort of AFME members demonstrating the material perceived impact of overlaps. As a consequence, banks recommend a stronger and clearer stance, which makes clear the cross-reference to competent authorities communication obligations under 451. We therefore propose amended wording as follows:

Current SREP text (para 297 Page 154)	Proposed amendment (new)
When a material impact on institution's capital profile is or may be expected due to relevant changes to the regulatory framework for determining P1R or to its implementation on the specific institution, competent authorities should assess such impact in terms of interaction with the P2R. Such assessment ~~***may***~~ result in redetermining the quantity or composition of the P2R to make sure the institution's overall own funds requirements are in line with Article 104a(1) of Directive 2013/36/EU, in particular that P2R cover risks or elements of risks that are not covered or not sufficiently covered by the P1R. To perform such an assessment, competent authorities may increase the frequency of the SREP assessment as set out in the SREP engagement model in section 2.4 or of specific elements thereof.	When a material impact on institution's capital profile is or may be expected due to relevant changes to the regulatory framework for determining P1R or to its implementation on the specific institution, competent authorities should assess such impact in terms of interaction with the P2R. Such assessment ~~***may***~~ ***should*** result ***systematically*** in redetermining the quantity or composition of the P2R to make sure the institution's overall own funds requirements are in line with Article 104a(1) of Directive 2013/36/EU, in particular that P2R covers risks or elements of risks that are not covered or not sufficiently covered by the P1R. ***This assessment should result in the communication by competent authorities of the amount of P2R attached to each risk subject to material changes within the P1R framework in accordance with paragraph 451(c).*** ~~***To perform such an assessment, competent authorities may increase the frequency of the SREP assessment as set out in the SREP engagement model in section 2.4 or of specific elements thereof."***~~
Justification: It is crucial for CAs to take action where unwarranted increases arise in P1 as a result of mechanistic or supplicative P2 requirements stemming from the implementation of the output floor. We also expect and would request an explicit requirement for competent authorities to share in respect of this issue not only the overall SREP score but also the scores for specific SREP elements and sub-elements. This level of detail is essential for banks to understand the assessment thoroughly and for comparability across institutions. We expect comparability to be clearly demonstrated to the banks. Yearly frequency is already demanding.	

Current SREP text (para 451(c), page 154)	Proposed amendment (new)
(c) the required level and quality of the P2R, in accordance with the process and criteria specified in Title 7, including the institution-specific justification for setting the requirements, separately for the risk of excessive leverage and for other types of risks. The justification should provide a clear indication of the material risk drivers contributing to the P2R. In case of relevant changes to the regulatory framework for determining the P1R applicable to an institution, communication should include the outcome of the assessment performed as per paragraph 297 of Title 7. In justifying P2R, competent authorities should: i. refer to ~~***the extent possible to***~~ the risk categories and subcategories/elements as described in Title 6 and sections 7.2 and 7.3, taking into account the existing definitions of specific risk types in the applicable legislation, with the aim of ensuring overall comparability across institutions; and 155 ii. identify the main deficiencies to be covered by these requirements until they are addressed line with paragraph 323.	(c) the required level and quality of the P2R, in accordance with the process and criteria specified in Title 7, including the institution-specific justification for setting the requirements, separately for the risk of excessive leverage and for other types of risks. The justification should provide a clear indication of the material risk drivers contributing to ***each of the different components and sub-elements of*** the P2R. In case of relevant changes to the regulatory framework for determining the P1R applicable to an institution, communication should include the outcome of the assessment performed as per paragraph 297 of Title 7 including each of the. In justifying P2R, competent authorities should: i. refer ~~***to the extent possible***~~ to the risk categories and subcategories/elements as described in Title 6 and sections 7.2 and 7.3, taking into account the existing definitions of specific risk types in the applicable legislation, with the aim of ensuring overall comparability across institutions; and 155 ii. identify the main deficiencies to be covered by these requirements until they are addressed line with paragraph 323.
Justification: It is crucial for CAs to share not only the overall SREP score but also the scores for specific SREP elements and sub-elements. This level of detail is essential for banks to understand	

the assessment thoroughly and for comparability across institutions. We expect comparability to be clearly demonstrated to the banks.

Current SREP text (para 357(e), page 122)	**Proposed amendment (new)**
In addition, competent authorities should consider the extent to which the existing combined buffer requirements and other applicable measures already cover risks revealed by stress testing. In this regard, competent authorities: […] (e) may review the P2G communicated to that institution to ensure that its calibration remains appropriate where an institution becomes bound by the output floor, in accordance with Article 104b(4a) of Directive 2013/36/EU. […]	In addition, competent authorities should consider the extent to which the existing combined buffer requirements and other applicable measures already cover risks revealed by stress testing. In this regard, competent authorities: […] (e) ~~***may***~~ ***should*** review the P2G communicated to that institution to ensure that its calibration remains appropriate where an institution becomes bound by the output floor, in accordance with Article 104b(4a) of Directive 2013/36/EU. […]
Justification: This will further enhance clarity and common understanding and would require competent authorities to review the relevant P2G communication to ensure that its calibration remains appropriate where an institution becomes bound by the output floor.	

To further strengthen this principle, the SREP methodology could be more comprehensively revised to embed the avoidance of double counting throughout the framework where there are material changes within the P1 framework e.g. operational risk, rather than competent authorities relying solely on paragraph 297. This would ensure a consistent and more comprehensive approach. This approach supports maintaining the complementary nature of Pillar 1 and Pillar 2 frameworks, without imposing unnecessary burdens through overlapping provisions. For instance, a similar approach to avoiding overlaps should be consistently applied to other areas, as per paragraph 339 (MREL overlaps) and para 345)P2G, P2R and P2G-LR).

In addition, as concluded by EBA, there is no assurance that on the EU level, competent authorities have comparable or aligned practices in assessing P2R (EBA's report on convergence of supervisory practices in 2023: https://www.eba.europa.eu/sites/default/files/2024-07/84952d29-8217-4a06-9ea2-f05be3898f06/2023%20Convergence%20Report.pdf). Therefore, more transparency and guidelines on P2R components should be put in place going forward. As one solution, EBA could define guidelines on rudimentary calibration of P2R based on the collective feedback from supervisory authorities and their practices (define best practices). This should ensure aligned assessment on an EU level.

Overlaps with the macroprudential framework:

The provision on overlaps between the P2G and countercyclical buffer (para 357 b) should be amended to allow for a more systematic offset. Indeed, countercyclical buffers, unlike the current guidelines suggest, structurally overlap with P2G. In a recent publication on positive neutral countercyclical buffers (November 2024), the Basel Committee reminds that "The CCyB can be raised by authorities in response to periods of excess aggregate credit growth, which have often been associated with the build-up of system-wide risk, and then released during downturns." It is therefore explicit in the guidance provided by the Basel Committee that countercyclical buffers should be released in stressed situations like the scenario of the EBA stress test. As a reminder, in the 2025 EBA stress test, banks in the EBA sample generate losses of €547bln in the adverse scenario. Stock prices lose 50% in the first year of the scenario in the European Union, commercial real estate prices lose over 30% over three years compared to their baseline growth. It is not possible not to characterize the scenario and its impact on banks as a downturn. The countercyclical buffer should therefore be always offset from the P2G, otherwise a structural overlap exists between the P2G, which reflects a capital requirement in stress, and the countercyclical buffer, which would be released in such a stress scenario.

P2R too extensive

Para 301 c) should be amended to emphasise the fact that P2R should be seen as a measure of last resort when it comes to deficiencies in internal governance, business model etc. Current GL proposal: "...where other supervisory measures have not been effective or are considered insufficient to address the identified deficiencies". CRD: "...it is **unlikely** that other supervisory measures would be **sufficient to ensure** that those requirements can be met **within an appropriate timeframe**". The current framework empowers an overly broad application for risks that are articulated too widely i.e. business model and governance. We propose structurally the removal of the governance and business model element consideration in P2R. Para 301(c) states that deficiencies in these areas may be addressed with P2R add-ons i.e. should be done in cases where other supervisory measures have not been effective or considered insufficient to address the identified deficiencies. This appears to be an insufficiently effective guardrail against situations where some high-level concerns on business model (e.g. competitive situation) or governance (e.g. weaknesses in second line effectiveness) could be justification for permanent P2R add-on without specific remediation measures. Moreover, the calibration of such matters is complex and difficult to communicate to supervised entities. We recognize that P2R add on for these elements could be linked to escalation ladder and justified in some cases. Consequently, para 301c should be clarified to avoid P2R being used as “business as usual” buffer for wide ranging concerns on business model and governance. There are other tools more suited for that purpose.

Overall Recovery Capacity

Banks have reservations about the consideration of the ORC score as regards to capital and liquidity adequacy assessment for the following reasons:

- There could be redundancies or double counting in terms of scoring; for instance, ORC takes into account measures implemented in BAU (i.e. ICAAP management actions and LCP measures).
- It would imply taking into account limited time horizons (6 months for liquidity ORC or 18 months for capital ORC), which do not reflect the actual full capacity of a bank to recover from a severe crisis, It would introduce a degree of subjectivity into the overall SREP assessment since the ORC is a theoretical measure which is based on scenarios, themselves specific to each bank, and furthermore, ORC is not really comparable between banks due to their differences in size, geographical footprint and business model. Hence , it would add further complexity to the SREP process at a time when regulators are engaged in a simplification process.

If nevertheless included, banks request the following clarifications:

- As regards the ORC assessment itself: what are the criteria used for the assessment of the ORC, considering both qualitative and quantitative aspects?
- We would welcome more clarity regarding the methodology applied for the “adjusted ORC” and notably for the haircuts applied to the quantitative impacts reported by institutions. More transparency on this matter in particular with banks having individual access to their respective “adjusted ORC” and to explanations for their final ORC score assessment . This would facilitate discussions between banks and their supervisors.
- Regarding paragraph 355 can the EBA confirm to what extent and how would the ORC score impact the final P2 assessments?

Title 8: Assessing risks to liquidity and funding and SREP liquidity and funding assessment

Q14. What are the respondents’ views on the merger with the ‘SREP liquidity assessment’ and the merger of the scores into a combined liquidity and funding adequacy score?

While the intention is clear, the current framework seems to allow non-p significant discretion for competent authorities. For example, the use of different benchmark exercises and approaches could lead to inconsistencies across jurisdictions and raise level playing field concerns.

Additionally, the level of detail in potential funding and liquidity measures appears extensive compared to capital measures. Some of these requirements could influence a bank’s strategic decisions.

Furthermore, it is important that supervisory assessment maintains an adequate level of granularity and transparency, and that the communication of the final outcome allows banks to clearly identify which

liquidity or funding components had the greatest influence on the overall score, thereby supporting the development of targeted and effective corrective actions.

Point 372 page 218 provides for coverage of all material legal entities: we subscribe to the expectation as well as to entities' responsibility for the implementation of risk management, but it should also be clarified that for consolidated groups, the findings as well as the remediation should be managed by the consolidating entity.

More transparency around methodologies applied for peer benchmarking would also be appreciated.

Title 9: Overall SREP assessment and communication

Q15. What are the respondents' views in relation to enhanced communication aspects?

We view the proposal for a dedicated section on SREP assessment communication, with more emphasis on justification by supervisors, as a positive development. Regarding the overall SREP assessment and its communication, some key concerns remain, remedying of which would facilitate clarity and understanding of said assessment. In particular:

- We support para. 451 and in particular the communication of the link between the score and the underlying material risk drivers. Currently, there is little clarity regarding the methodology employed by the Supervisor in its risk assessment and score calculation.
- The Pillar 2 Requirement (P2R) determination (stemming from the ambiguous scores - mentioned in the bullet above - regarding the algorithm employed for the SREP) is consequently unclear as well. The related methodology should be disclosed and, in particular, specify how the risk-based approach is ensured especially considering the inclusion of supervisory judgement.

Moreover, with reference to the 2025 SREP decisions, we welcome the effort to streamline the outcome of the SREP decision, but such effort should not be at the cost of crucial information leading to extremes:

- Severity should be specified for each qualitative requirement and recommendation in the SREP letter communicated to the bank and not only in the context of the supervisory dialogue.
- Scoring per core element should be specified for individual foreign subsidiaries.

In order to get clear comparable picture of assessment outcome and taken into account the various components that are included in SREP assessment and P2R determination, institutions should be given transparency on the composition of P2R, so that they can effectively steer their efforts to remediate assessed deficiencies.

While we support maintaining a holistic approach we would propose to be more prescriptive regarding the granularity (elements and sub-elements) and detail (+/- qualifiers) of scores competent authorities should share with the institution. This is vital for understanding where exactly the institution stands in terms of each of the four main SREP elements as well as each sub-elements ("risks to capital"). Consequently, we propose the following amendment:

Current SREP text (para 451(b), Page 154)	**Proposed amendment (new)**
The communication of the SREP assessment to institutions, and, where relevant, to other competent or resolution authorities, should at least include the following elements: a. the relevant level of application, the date and the date of the application of the SREP assessment, as well as the reference dates of the information used in its preparation in accordance with Article 10 of the Commission Implementing Regulation (EU) No 710/2014; b. a description of the outcome of the SREP, including a summary of the assessment and the ~~***overall***~~ SREP score. ~~***Where remedial action is required from the institution for specific SREP elements or sub-elements, competent authorities should consider sharing the score***~~	The communication of the SREP assessment to institutions, and, where relevant, to other competent or resolution authorities, should at least include the following elements: a. the relevant level of application, the date and the date of the application of the SREP assessment, as well as the reference dates of the information used in its preparation in accordance with Article 10 of the Commission Implementing Regulation (EU) No 710/2014; b. a description of the outcome of the SREP, including a summary of the assessment and the ~~***overall***~~ SREP score, ***which shall include the overall score as well as the score for all elements and sub-elements thereof; including +/- qualifiers;***

~~***for these elements and sub-elements, where appropriate;***~~ c. the required level and quality of the P2R, in accordance with the process and criteria specified in Title 7, including the institution-specific justification for setting the requirements, separately for the risk of excessive leverage and for other types of risk. The justification should provide a clear indication of the material risk drivers contributing to the P2R …	c. the required level and quality of the P2R, in accordance with the process and criteria specified in Title 7, **the *breakdown of the P2R by SREP elements and sub-elements*** including the institution-specific justification for setting the requirements, separately for the risk of excessive leverage and for other types of risk. The justification should provide a clear ***qualitative*** indication ***and a quantitative range*** of the material risk drivers contributing to the P2;
Justification: It is crucial for CAs to share not only the overall SREP score but also the scores for specific SREP elements and sub-elements. This transparency is essential for banks to understand the assessment thoroughly and for comparability across institutions alongside the holistic approach. We expect comparability to be clearly demonstrated to the banks.	

Benchmarking: banks should be benchmarked where there is a comparable peer group of financial institutions. The results of such benchmarking should be consistently shared with the bank to facilitate understanding and foster improvement but not as a tool for taking action which should be underpinned by the relevant regulatory requirement.

Current SREP text (para 451, Page 154)	**Proposed amendment (new)**
The communication of the SREP assessment to institutions, and, where relevant, to other competent or resolution authorities, should at least include the following elements: …	The communication of the SREP assessment to institutions, and, where relevant, to other competent or resolution authorities, should at least include the following elements: … ***(h) (new) information regarding the results of any benchmarking by element and sub-element involving the institution against a comparable group of financial institutions.***
Justification: Transparency of benchmarking - where done against comparable institutions - would help drive better understanding of Pillar 2 and help them to foster improvements.	

Title 10: Application of the SREP to cross-border groups

Q16. Do you consider the coverage and level of detail of this Title appropriate for its intended purpose?

Regarding para. 473, we would support a stronger coordination between competent authorities within the college of Supervisors in:

- guaranteeing the flow of information between competent authorities.
- harmonizing assessment methodologies across banks in different jurisdictions. Currently, methodologies differ, with reference to both SSM and extra-SSM subsidiaries (but particularly the latter), and cross border groups experience varying approaches applied to their subsidiaries. The ECB could play a central role in such a dialogue fostering harmonization.
- planning supervisory actions and intervention measures.

Para 473 could include the following additional points:

"h. The potential for proposed SREP measures at subsidiary level to impose undue burden on the consolidated group, particularly where such measures would require substantial deviation from group-wide procedures or frameworks without clear proportionality to the risk profile of the subsidiary. Supervisory colleges should ensure that local requirements do not create unnecessary fragmentation or operational inefficiencies at group level, and that any deviations are justified by material risk differences;

i. The risk of overlap or duplication between Group and subsidiary supervisory measures (including SREP-driven actions) and existing local regulations or macroprudential policies (such as capital buffers, risk weight floors, or other prudential add-ons). Colleges should coordinate to avoid excessive conservatism or double-counting of risk mitigants, ensuring that SREP measures are not imposed to address the same risk unless clearly warranted by the specific circumstances;"

Title 11: Supervisory stress testing

Q17. Do you consider the coverage and level of detail of this Title appropriate for its intended purpose?

Firstly, regarding the consideration of AQR outcomes in stress tests, we note the phrasing “where available, appropriate and not already incorporated”. This wording introduces a degree of discretion, suggesting that considering AQR outcomes might not be a mandatory or consistently applied practice. We believe this could potentially lead to inconsistencies and may need further clarification.

Secondly, the wording regarding the “optionality” in setting Target Capital Ratios, specifically the statement that competent authorities “may also consider setting predefined target capital ratios” implies that such targets are optional. This could create ambiguity in the application of these ratios and might benefit from more precise language to ensure consistent implementation.

Title 12: Assessing third-country branches

Q18. Do respondents consider the guidance for the assessment of third-country branches appropriate and sufficiently clear?

Home-host cooperation: Strengthen structured home–host cooperation (paragraph 505). The cooperation with the home authority should be made more explicit and structured. Where host measures for a TCB depend on group-level policies, systems or booking arrangements, these should require prior consultation with the home authority. Hence, the SREP Guidelines should be more explicit about the information sharing channels that should be established.

Commercial viability: CRR Art. 4(1)(17) defines a branch as a "place of business which forms a legally dependent part of an institution." This legal definition demonstrates that a branch is, by its nature, an integrated part of its parent entity rather than a standalone undertaking. This principle, however, contrasts with Title 12 in the Guidelines which emphasizes the independence of a TCB as fundamental to enable a favourable SREP assessment. This focus can lead to expectations that branches maintain significant local resources, which involves considerable cost and operational complexity.

This situation is further complicated by baked in disincentives for growth within the CRD. While TCBs are encouraged to be well-resourced, the framework also contains specific thresholds that, when crossed, trigger more stringent regulatory rules. For example, under CRD Art. 48a(1)(a), a TCB’s reclassification from a Class 2 to a Class 1 branch is triggered if its total assets reach €5 billion. Similarly, as per CRD Art. 48i(2), the entire third-country group may face more restrictive measures, including potential subsidiarization requirements, if its total Union-wide assets exceed €40 billion.

TCBs are expected to bear the significant costs associated with sufficient independence from the parent, yet they simultaneously face disincentives for achieving the scale that would make such an operating model more commercially sustainable. Consequently, the framework inadvertently limits market access and growth for third-country institutions, reducing the level of competition within the EU financial market. Therefore, we propose to lessen the emphasis on independence where feasible within the Guidelines.

Moreover, paragraph 503 refers to section 12.3, which does not appear elsewhere in the Guidelines. It seems that this should be amended to refer to paragraph 530 in section 12.2, or this should be renamed as new section 12.3.

Proportionality: For class 1 branches, which are part of a GSII in a prudentially equivalent regime, it is not proportionate for these to be subject to an annual review nor is it in line with regulatory simplification in the EU. Proportionately should be applied by supervisors to reduce unnecessary compliance and governance costs by supervisors given branch context within a group’s regulatory regime and business model.

Additionally, the following wording is suggested for proportional application:

- **Paragraph 506, Page 169:** *“Competent authorities should ensure that the scope of the assessment contains measures to identify TCBs of systemic importance or posing significant financial stability risks. Further, the assessment should enable identification of TCBs for which authorisation under Title III, Chapter 1 of Directive 2013/36/EU (as a subsidiary) may be appropriate. Competent authorities should refer to Article 48i for criteria to consider in this regard”.*