

POSITION PAPER



ESBG response to EBA consultation on Guidelines on ESG scenario analysis

ESBG (European Savings and Retail Banking Group)

Rue Marie-Thérèse, 11 - B-1000 Brussels

April 2025

**Members are invited to provide their input by Monday, 10 March 2025.
The EBA consultation deadline is set for Wednesday, 16 April 2025.**

EBA Questions

Question 1: Do you have any comments on the interplay between these Guidelines and the Guidelines on the management of ESG risks?

In principle, there is a close connection between the two papers. However, we believe that care should be taken to ensure consistency in the statements, while avoiding redundancies in implementation. Since these Guidelines are intended to support capacity and knowledge building, it is either too early (due to the implementation of the general guideline on ESG risk management) or much too late, given that implementation of the requirements by the beginning of 2026 may not be feasible mainly due to the processes at EBA and the NCAs. As announced at the hearing on March 17, 2025, an adequate implementation period should be granted.

Furthermore, savings banks, who primarily finance SMEs and households, are facing challenges in complying with both Guidelines, which builds on an expectation of counterparties reporting on ESG. The recent Omnibus I-proposal is expected to further limit the access to standardized ESG-data from counterparties, and as a result institutions are left with a requirement which forces them to require new burdensome ESG reporting from SMEs, which is counterproductive to the ambition of EU's strategy, to reduce requirements of SMEs with 35 %.

Question 2: Do you have comments on the proposed definition of scenario analysis and its various uses as presented in Figure 1?

It is unclear whether it is sufficient to specify a particular path or a particular target, or whether modelling with sensitivities (e.g. different carbon prices) is required. A clarification in this regard would be helpful.

Question 3: Do you have comments on the proposed distinction made between short-term scenario analysis (CST) and longer-term scenario analysis (CRA) as illustrated in Figure 3?

We would like to make the following comments on this matter:

- Firstly, it is not defined in more detail whether the scenario should only refer to one risk driver (carbon price, flood, drought, etc.) and thus the institution has to calculate several scenarios to assess the financial impact or whether a comprehensive scenario (e.g. higher carbon price with simultaneous flood or drought situation) has to be modelled and thus a scenario calculation is sufficient. Against this backdrop, can the same scenario be used for both analyses? If necessary, in a different form, considering short-term and long-term.



- Clarification that qualitative analyses are sufficient for CRA. This only partially matches the description in paragraph 74 (where CRA also refers to a period of five years and qualitative and quantitative analyses, for example).

Question 4: Do you have any comments on the interplay between these Guidelines and the Guidelines on institution’s stress testing?

We believe that it should be made clear that no reverse ESG stress test is required.

Additionally, we would like to seek clarification from the European Banking Authority (EBA) as to the following point:

1. How to manage sensitivity analyses (further to question 2 of this consultation and as required in EBA-GL-2018-04)

Question 5: Do you have comments on the Climate Scenario Analysis framework as illustrated in Figure 4?

Overall, the CSA framework figure is clear and explanatory, yet it indicates CRA > 10 years. This does not seem to match the minimum threshold of 10 years, or the 5-year time horizon shown in paragraph 74.

Furthermore, we would like to enquire with the EBA whether it would be consistent to transfer findings and results from CST to CRA. This could be displayed through links with points 2 and 3 of said figure.

Question 6: While respecting the definitions provided in other parts of the regulation, is there any concept/s used in these guidelines that it would be useful to include in an annexed glossary?

Question 7: Do you have comments on section 4.1 Purpose and governance?

In the interest of clarity, we would like to propose that the results of the CST should be seen as an add-on to the normal risk-bearing capacity/internal capital adequacy assessment. The results should rather be considered in isolation from each other.

Moreover, regarding the sentence *“Institutions should therefore be careful **not to overinterpret** scenario results or to cherry-pick individual scenarios to draw general conclusions”*, from paragraph 41, we strongly suggest clarifying that this does not involve direct capital requirements.



Question 8: Do you agree that the proposed proportionality approach is commensurate with both the maturity of the topic and the size, nature and complexity of the institution's activities?

On a topic like ESG, where counterparties of institutions are facing widely different requirements, it is of utmost importance that proportionality is considered in these new Guidelines.

The approach proposed by the Guidelines primarily distinguishes between SNCIs and non-SNCIs (large and other institutions), however most SNCIs and other institutions are primarily financing counterparties (e.g. SMEs) who are not in scope of ESG reporting requirements. This should be clearly reflected in the requirements for non-large institutions in the Guidelines, otherwise, the Guidelines will introduce new ESG-related burdens on SMEs which contradicts the EU's ambition of reducing SME burdens by 35 %.

Furthermore, it is worth highlighting that, from the EBA text, there is no reference of differentiation of less systemic institutions, which should have a lower burden as far as scenario analyses are concerned.

Lastly, the principle of materiality should also be of central importance.

Question 9: Do you agree with the proposed references to organisations in paragraph 28? Would you suggest alternative or complementary references?

We propose including universities and colleges that have published scenarios based on the scientific consensus on global warming. For instance, local colleges that have modelled a flood scenario for a given region.

Question 10: Do you have additional comments on section 5.1 Setting climate scenarios?

As regards paragraph 39 of the suggested Guidelines, we suggest changing the second sentence to “It is important, however, that the baseline scenario takes into account the policies currently adopted.”, to avoid having institutions speculate in potential future adaptation of legislation.

Furthermore, we suggest replacing “with and without” with “with or without”, which would allow an additional scenario for institutions.

It is also worth noting that, to a large extent, the requirements depend on the availability of corresponding scientific scenarios (including, for example, geodata, modelling of transmission channels, intertwining and second-round effects, etc. at the required level of detail) – this is often not the case today.



Question 11: Do you have comments on the description of the climate transmission channels?

We propose including a reference to proportionality here as well, so that second-round effects for institutions do not necessarily have to be modelled. To consider the various transmission channels, financial institutions need more guidance from the reference-scenario setting organisations (like NGFS...). The scenarios must become more granular in terms of sectors and regions.

In this case it is again important to be aware that many institutions primarily finance non-reporting counterparties which limits the ability to take into account microeconomic channels. We therefore suggest limiting the exercise to focus on macroeconomic channels for SNClS and other institutions.

Question 12: Do you have comments on climate stress test (CST) tool and its use to test an institution’s financial resilience?

Question 13: Do you have comments on the Climate Resilience Analysis (CRA) tool and its use to challenge an institution’s business model resilience?

Qualitative analyses are sufficient for this purpose and should cover a period of > 5 years. Modelling of macroeconomic dependencies and second-round effects would have to be covered by scientific source scenarios.

Question 14: Do you have any additional comments on the draft Guidelines on ESG Scenario Analysis?

According to CRD6, companies must integrate sustainability factors into their capital management systems and routines to effectively identify, manage, monitor, and report risks. This integration requires a significant amount of data from counterparties. While the CSRD is anticipated to enhance data availability, ongoing simplification processes may limit its scope. The Omnibus package proposed on 26 February indicates that only large undertakings (i.e., those with more than 1,000 employees and either a turnover exceeding EUR 50 million or a balance sheet total above EUR 25 million) will be obliged to report under the CSRD. Additionally, the Commission proposes introducing a “value-chain cap” for businesses not directly covered by the CSRD, which may restrict banks’ ability to obtain customer information.

The requirements for managing ESG risks must be aligned with developments in the regulatory framework intended to provide the necessary information. Without this alignment, financial institutions may struggle to meet compliance



obligations. Overall, it is important to carefully weigh the benefits of increasingly complex regulations against their associated costs.

Against this backdrop, we would like to highlight once more the need to observe proportionality and consistency in the Guidelines.

Furthermore, it is important to consider that that CSTs without data history are associated with great uncertainties. ESG risks are not a new risk driver. Additional stress tests for specific risk drivers are therefore generally more of a sensitivity analysis that supports the validity of the known stress tests. This intended use should be the focus of the approach at CST.

We would also like to note that the requirement to take into account dynamic balance sheet assumptions over longer periods of time is particularly challenging for smaller institutions. Therefore, all institutions other than large banks should be exempted from this requirement.

We would like to underscore that no further sustainability factors, other than climate-related ones, should be analysed in detail until further notice (particularly until the corresponding scientific findings are available and integrated into the scenarios of the scenario providers mentioned in paragraph 28).

We moreover suggest that, in case the “stop-the-clock”-proposal of Omnibus I is adopted during 2025, then the date of application which is specified in paragraph 10 of the Guidelines should similarly be postponed by two years to match the ESG-reporting requirements of non-financial counterparties. On this note, we believe there should be an emphasis on reducing the regulatory burden that banks currently have as regards ESG-related matters. The European Commission signaled the will to reduce the burden on CSRD, CSDDD, and taxonomy under the abovementioned Omnibus simplification proposal. But simplification should also apply to ESG risk management requirements.

Finally, in our view, it would be beneficial to have regulators provide the test scenarios for the CSA, as long as said scenarios account sufficiently for proportionality. Moreover, these scenarios should not be limited to the projection of carbon concentrations or the evolution of average temperatures, or GDP impacts. The scenarios to be drawn by regulators should include, in our view: the evolution of the probabilities of default by sector, devaluation in asset prices (e.g. real estate), devaluation in stock prices, etc. For ILAAP purposes, they also should include the evolution of retail and wholesale liquidity volumes.

Having regulators prescribe test scenarios ensures that all the banks are on the same level playing field with comparable results. For the system as a whole, it reduces regulatory compliance costs, avoiding that several banks do the work that can be undertaken by regulators.



About ESBG (European Savings and Retail Banking Group)

ESBG represents the locally focused European banking sector, helping savings and retail banks in 20 European countries strengthen their unique approach that focuses on providing service to local communities and boosting SMEs. Advocating for a proportionate approach to banking rules, ESBG unites at EU level some 873 banks, which together employ 610,000 people driven to innovate at 41,000 outlets. ESBG members have total assets of € 6,38 trillion, provide € 313 billion in loans to SMEs, and serve 163 million Europeans seeking retail banking services. ESBG members commit to further unleash the promise of sustainable, responsible 21st century banking.

Our transparency ID is 8765978796-80.



European Savings and Retail Banking Group - aisbl
Rue Marie-Thérèse, 11 ■ B-1000 Brussels ■ Tel: +32 2 211 11 11 ■ Fax: +32 2 211
11 99
Info@wsbi-esbg.org ■ www.wsbi-esbg.org

Published by ESBG. March 2025