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MR/MM

EACB comments on
EBA draft Guidelines on ESG Scenario Analysis
(EBA/GL/2025/02)

General comments

The EACB welcomes the opportunity to comment on the EBA's Consultation Paper on Draft Guidelines on ESG Scenario Analysis. These Guidelines represent an important step in helping financial institutions to progress on an enhanced management of the challenges posed by ESG risks, particularly climate-related risks.

In this regard, providing more detailed guidance for a simpler and leaner approach to the analysis for smaller institutions would be instrumental to avoid a disproportionate burden for them. This approach would also allow these institutions to learning by doing and acquire skills and competencies that may not be available at the moment, ensuring an effective application of the draft guideline in terms of costs and ensuring financial stability of the banking system. Practical examples or case studies tailored to smaller institutions would also support banks in implementing ESG scenario analysis effectively.

Finally, the EACB encourages a stronger coordination between co-legislators and supervisors. Legislative initiatives like the Omnibus proposals will have an impact on the availability of ESG data. We believe that these kinds of considerations should be included in the EBA analysis to improve the effectiveness of the suggested standards.

Answers to selected questions

Q1: Do you have any comments on the interplay between these Guidelines and the Guidelines on the management of ESG risks?

Both Guidelines will be instrumental in supporting banks to analyse, quantify and address ESG risks. However, concerns remain on the long term expectations that regulators might have for banks in addressing these risks and the absence of consideration of the possible impact stemming from the Omnibus I legislative process.
On one side, Social and Governance risks are contemplated in both Guidelines as elements of analysis in the long term. However, uncertainty remains on the dimensions of these risks and how they should be included in banks' assessments, at least for the stress test analysis. We encourage the regulators to come to a more realistic and clearer communication of their expectations.
On the other hand, it would be important for the EBA to consider the geopolitical dimension of the current debate and coordinate its work in line with the initiative of the co-legislators, like the European Commission. Although not directly affecting the CRR/CRD, the Omnibus initiative is poised to reduce the available ESG data via public disclosure in the future. We believe that these kinds of considerations should be included in the EBA analysis to improve the effectiveness of the proposed initiatives.

Q2: Do you have comments on the proposed definition of scenario analysis and various uses as presented in Figure 1?

NA

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Q3. 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?

For non-complex small institutions (SNCI), qualitative scenario analyses should be sufficient to ensure an adequate assessment of risk. The obligation to develop quantitative models should only come into effect when data availability and regulatory conditions make such an approach feasible. Moreover, pragmatic standard methods and sectoral benchmarks might be envisaged by the regulators in order to reduce the implementation burden, particularly for SNCIs.

Therefore, we suggest to amend para. 32 to avoid any misinterpretation of the draft Gudelines and ensure legal certainty and clarity. Terms like "initially" and "predominantly", although ensuring flexibility, could generate different expectations in the NCAs, with possibility of fragmented gold-plating and level playing field. In addition, further standardisation, at least for SNCIs, would help to avoid unnecessary burden and ensure proportionality.

Q4. Do you have any comments on the interplay between these Guidelines and the Guidelines on institution's stress testing?

NA

Q5. Do you have comments on the Climate Scenario Analysis framework as illustrated in Figure 4?

The framework could provide more details in how to leverage external sources data and scenarios. Another improvement would be clearer and standardized criteria for SNCIs. Furthermore, given the inherent uncertainties of the longer-term scenario analysis, it should be clarified how supervisors would expect banks to factor the results in their decision-making process.

Q6. 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?

NA

Q7. Do you have comments on section 4.1 Purpose and governance?

NA

Q8. 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?

We welcome that the EBA draft Guidelines clarify that the degree of sophistication and quantification, as well as the frequency and scope of ESG scenario analysis should be commensurate to the size, nature and complexity of the institution's activities and to ESG materiality assessment as well as should be proportionate to the institution's capabilities, needs or expected benefits, as specified under para. 24 and 25.

However, the application of the proposed Guidelines would result in a significant increase in the administrative burden for SNCIs, even though, in the initial phase, banks are only required to consider environmental risks and may focus on qualitative aspects and less demanding analyses. SNCIs face major challenges, including limited internal resources, a lack of specialised expertise among staff, insufficient data availability and quality, and technological constraints.
Given these obstacles, it is important to emphasise that a qualitative assessment alone should be considered sufficient to evaluate the impact of climate risks – particularly for the Climate Resilience Analysis (CRA) – without the need to develop complex quantitative models. In line with the principle of proportionality, SNCIs should be required to conduct only one of the two analyses, preferably the Climate Stress Test (CST), which is more relevant for short- to medium-term risk management, while the CRA should remain purely qualitative to avoid excessive burden.

Furthermore, greater support should be provided to facilitate the simplified integration of these methodologies into the ICAAP and ILAAP processes. Finally, documentation and reporting requirements should be designed to be simple and efficient, and avoid unnecessary administrative complexity.

Q9. Do you agree with the proposed references to organisations in paragraph 28? Would you suggest alternative or complementary references?

One of the major challenges for LSIs is the limited availability of data and internal expertise in modelling. To support these banks in addressing ESG risks, EBA might produce simplified scenario or delegate certain mandates to national supervisory authorities. Another solution might be to clearly state other sources of external scenarios.

In addition, it would be important that supervisory authorities provide standardized sectoral and regional data analyses to help banks better understand trends and integrate such data into their risk analysis processes more efficiently. In parallel, national ESG risk databases should be developed/improved to facilitate access to relevant information.

Q10. Do you have additional comments on section 5.1 Setting climate scenarios?

LSIs should be allowed to prioritize physical risks, as these are easier to identify and quantify compared to transition risks. This would allow them to develop a more effective and proportionate approach based on their analytical capacity.

Q11. Do you have comments on the description of the climate transmission channels?

NA

Q12. Do you have comments on climate stress test (CST) tool and its use to test an institution's financial resilience?

Clarifications are requested regarding long-term analyses (CRA), given the limited experience of banks with processes and analysis that envisage such long forward horizon. The EBA might specify the key variables and analysis dimensions to be used for the CRA.

Looking at the current draft guideline, the meaning of "dynamic balance sheet approach" should be clarified in the context of CRA and whether "disaggregated" refers to sectoral or portfolio granularity in para. 77.

Q13. Do you have comments on the Climate Resilience Analysis (CRA) tool and its use to challenge an institution's business model resilience?

NA

Q14. Do you have any additional comments on the draft Guidelines on ESG Scenario Analysis?

Regarding the extended application deadline of the Guidelines for LSIs until 11 January 2027, an optional extension should be considered if by the end of 2026 sufficient methodological tools for LSIs are not available. Such guidance would be essential for effective and proportionate ESG scenario analysis implementation. These could include simplified methodologies, standardized parameters, and predefined scenarios for a more practical ESG risk assessment. A phased-in option with pilot phases for LSIs could also be introduced to ease the transition.

We welcome the provision included in the draft Guidelines that allows LSIs to initially focus on qualitative aspects "as a first step" and only consider climate risks. However, it may be necessary to better specify how long LSIs may focus solely on qualitative aspects, and when they should start including other ESG risks in scenario analysis beyond environmental ones.

To ensure an effective and timely implementation, the EBA and NCAs might consider the possibility to develop case studies for LSIs, providing concrete examples of how to apply proposed methodologies and simplified ESG risk assessment tools. This approach might also support by the promotion of sectoral workshops and best practices.

Finally, expectation 11 of the ECB Guide on climate and environmental risks (November 2020) indicated that the CST (short-term analyses) should be integrated into ICAAP and ILAAP processes. However, it is not fully clear how to ensure consistency and how the EBA draft Guidelines are approaching this issue for smaller institutions.