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Our Reference ELLS2/PERSSHARED.ODRM1/EUROPE/78079477v2
SRA Number 420646

16 April 2025

Dear Sirs/Madams

EBA/CP/2025/02 - Response to Consultation on Guidelines on ESG scenario analysis

1 Introduction

- 1.1 Thank you for the opportunity to provide submissions on the Draft Guidelines. We commend the EBA for producing comprehensive and well-drafted guidelines on climate-related risks in scenario analysis.
- 1.2 In this response, we comment specifically on:
 - (i) paragraph 47 of the Background and Rationale of the Draft Guidelines, and the potential practical difficulties in seeking to consider climate-related risks in isolation from social and governance risks;
 - (ii) question 11 of the consultation on the Draft Guidelines;
 - (iii) the omission of double materiality assessments in the Draft Guidelines; and
 - (iv) the use of information collected and shared by financial institutions pursuant to the Draft Guidelines in respect of climate-related risks.

2 Paragraph 47 of the Background and Rationale of the Draft Guidelines, and the potential practical difficulties in seeking to consider climate-related risks in isolation from social and governance risks

2.1 We note that the Draft Guidelines¹, in line with the EBA Roadmap on Sustainable Finance, focus on climate-related risks and use climate-related risks as an illustration of ESG scenario analysis which will be gradually replicated in respect of social and governance risks. We appreciate that this decision has been taken because, in practice, there is little infrastructure in place necessary for financial institutions to carry out quantitative, comprehensive and in-depth analysis beyond climate-related risks. However, this approach:

- (i) risks financial institutions taking a siloed approach to climate-related risks, which could lead to counter-intuitive practices being adopted to mitigate said risks;
- (ii) does little to incentivise third party providers to start investing in producing systems capable of undertaking more complex and holistic analysis; and
- (iii) risks financial institutions having to undertake a wholesale reinvention of mitigation measures once the wider ESG scenario analysis guidance comes into effect.

2.2 Ease of adoption and efficacy of the Draft Guidelines would be increased if further clarity were provided in respect of the anticipated timeline for the EBA's release of further guidelines on ESG scenario analysis in respect of social and governance risks.

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

3.1 In respect of question 11, we comment on:

- (i) the requirement in paragraph 49 for financial institutions to analyse how their counterparties are indirectly subject to climate-related risks through their value chain;
- (ii) the requirement in paragraph 53 for financial institutions to identify relevant climate transmission channels as a "continuous process"; and
- (iii) the EBA's approach to climate transmission channels relevant to the just transition.

3.2 The requirement in paragraph 49 for financial institutions to analyse how their counterparties are indirectly subject to climate-related risks through their value chain

(a) Paragraphs 43 to 54 of the Draft Guidelines set out:

- (i) the requirement for institutions to identify relevant climate transmission channels as a part of their scenario analysis; and
- (ii) how financial institutions should identify relevant climate transmission channels.

(b) Paragraph 49 of the Draft Guidelines reads:

"Institutions should analyse the extent to which their counterparties, starting with the largest or most concentrated, are indirectly subject to climate-related risks through their value chain... if these

¹ Paragraph 47 of the Background and Rationale of the Draft Guidelines.

impacts are material, institutions should strive to include these indirect impacts into their transmission channels.”

- (c) The requirement set out in paragraph 49 for financial institutions to analyse how their counterparties are indirectly subject to climate-related risks through their value chain may be considered too onerous on financial institutions when considered against the EU’s wider ESG regulatory landscape and inconsistent with the European Commission’s aim to reduce reporting burdens and create an ESG regulatory landscape that facilitates competitiveness and resilience.²
- (d) The Omnibus I proposal³ sets out the European Commission’s concerns that the value chain due diligence obligations contained in the Corporate Sustainability Due Diligence Directive (the “CSDDD”)⁴ are too burdensome: *“Consequently, when it comes to business relationships, companies should, after having mapped their chains of activities, be required to carry out in-depth assessments as regards direct business partners only”*.⁵ The European Commission states that the Omnibus I proposal *“contributes to regulatory fitness by reducing burdens and ensuring a more coherent and simpler regulatory environment, while respecting the EU’s sustainability objectives”*.⁶
- (e) Whilst we note that there is a difference between the processes involved in due diligence for the purposes of reporting under the Corporate Sustainability Reporting Directive (“CSRD”) and the CSDDD vs. the processes used by financial institutions for risk management, the EBA should consider narrowing the analysis required in paragraph 49 of the Draft Guidelines so that it is aligned with the EU’s wider ESG regulatory landscape. This is particularly the case where the CSDDD leaves it open for downstream financial services products to be included in scope in the future.⁷ Should the Omnibus I proposal be adopted, the level of analysis required by financial institutions to analyse the climate-related risks stemming from the complex value chains of their counterparties, may well be considered too onerous and misaligned with other risk considerations to be taken into account by financial institutions.
- (f) There are two main ways in which the required analysis in paragraph 49 of the Draft Guidelines on financial institutions could be narrowed:
 - (i) Limit the requirement to the risks posed to counterparties by their direct business partners, not the financial institution’s entire value chain, unless further information is readily available.
 - (ii) In considering the risks their counterparties are exposed to through their value chains, financial institutions could be required to only analyse information already collected and/or produced by counterparties pursuant to other EU ESG laws such as the CSRD, CSDDD, Forced Labour Regulation (EU 2024/3015), Deforestation Regulation (EU 2023/1115), Battery Regulation (EU 2023/1542) and Conflict Minerals Regulation (EU 2017/821).

² COM(2025)30 – A Competitive Compass for the EU - Communication from the Commission to the European Parliament, the European Council, The Council, the European Economic and Social Committee and the Committee of the Regions.

³ COM(2025)81 - Directive of the European Parliament and of the Council amending Directives 2006/43/EC, 2013/34/EU, (EU) 2022/2464 and (EU) 2024/1760 as regards certain corporate sustainability reporting and due diligence requirements.

⁴ Directive 2024/1760.

⁵ Omnibus I proposal (Article 21).

⁶ Omnibus I proposal (page 12).

⁷ Recital 98 CSDDD.

3.3 The requirement in paragraph 53 for financial institutions to identify relevant climate transmission channels as a “continuous process”

- (a) The obligation in paragraph 49 appears particularly onerous in light of paragraph 53 of the Draft Guidelines which states that financial institutions should identify relevant climate transmission channels as a “continuous process”. While we note the requirement contained in paragraph 53 concerning the frequency of financial institutions’ assessments aligns with a number of voluntary standards such as the UN Guiding Principles and OECD Guidelines for Multinational Enterprises on Responsible Business Conduct (to the extent applicable to climate-related risks), it does not align with the Omnibus I proposal. For example, in contrast to the Draft Guidelines, the Omnibus I proposal amends Article 15 of the CSDDD on monitoring to extend the intervals in which companies need to regularly assess the adequacy and effectiveness of due diligence measures, from one year to five years.
- (b) In light of the proposed amendment to Article 15 of the CSDDD contained in the Omnibus I proposal, the requirement in paragraph 53 for financial institutions to identify relevant climate transmission channels on an ongoing basis may be considered too onerous. The requirement in paragraph 53 could be narrowed in line with the wider EU ESG regulatory landscape to require financial institutions to identify relevant climate transmission channels no more than once a year, and/or potentially also when there is another significant change.

3.4 The EBA’s approach to climate transmission channels relevant to the just transition

- (a) Paragraph 47 sets out the climate transmission channels financial institutions should factor into their analysis when considering transition risks. The Draft Guidelines do not make specific reference to risks associated with a just transition. It would be helpful for financial institutions to understand whether the EBA has considered the possibility of incorporating transmission channels relevant to the just transition in this section of the Draft Guidelines.

4 The omission of double materiality assessments in the Draft Guidelines

- 4.1 The Draft Guidelines do not require financial institutions to carry out double materiality assessments. We would like to understand if the EBA is considering introducing more double materiality aspects into the Draft Guidelines in the future in order to bring the EU’s regulatory landscape in respect of financial institutions more in line with the EU’s wider ESG regulatory landscape, or whether this is considered out of scope.
- 4.2 In line with our approach elsewhere in these submissions, we would suggest that the EBA’s approach to double materiality assessments in respect of financial institutions should seek wherever possible to align with the EU’s wider ESG regulatory landscape.

5 Use of information collected and shared by financial institutions pursuant to the Draft Guidelines in respect of climate related risks

- 5.1 As discussed above, paragraphs 49 and 53 of the Draft Guidelines require financial institutions to analyse how their counterparties are indirectly subject to climate-related risks through their value chain on an ongoing basis. Imposing this requirement on financial institutions in circumstances where there are no similar obligations on relevant counterparties also risks financial institutions being in a position where they have superior knowledge and expertise around climate-related risks than their counterparties.

5.2 Financial institutions would benefit from more guidance on:

- (i) how the EBA envisages financial institutions will be required to share information in respect of climate-related risks with counterparties and other third parties such as insurers; and
- (ii) what the EBA expects the liability position will be where counterparties and other third parties such as insurers rely on information shared by financial institutions in respect of climate-related risks which may later turn out to be inaccurate or at odds with models prepared by others.

We hope that our submissions are helpful and well received and we welcome any questions arising thereof.

We look forward to reviewing the finalised Draft Guidelines.

Yours faithfully

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