
AFME and ISDA response – EBA consultation on its draft Guidelines on Environmental, Social and Governance (ESG) scenario analysis

April 16 2025

The Association for Financial Markets in Europe (AFME) and the International Swaps and Derivatives Association (ISDA) the 'Joint Associations' and their members ('the industry') welcome the opportunity to respond to the EBA's consultation¹ on **its draft Guidelines on Environmental, Social and Governance (ESG) scenario analysis**.

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 listed on the EU Register of Interest Representatives, registration number 65110063986-76.

ISDA has worked to make the global derivatives markets safer and more efficient, with over 1,000 member institutions from 76 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers

General Comments

The work carried out by the EBA on promoting guidelines on the identification, measurement, management and monitoring of ESG risks is an important contribution to the development of Climate Scenario Analysis (CSA). CSA is a very useful tool which can play a role in enhancing understanding of the dynamics of climate-related financial risks and measuring potential climate related physical and transition risks over different time horizons. The role of CSA has progressively expanded as banks use it as one input to a range of applications, including to inform risk assessment and management processes.

In terms of the proposed timeline for implementing the guidelines, we foresee a number of challenges, also linked to broader political developments ongoing at the time of this consultation. We note that the EU has reconsidered the information required from non-financial counterparties under CSRD and CSDDD and is addressing these via an 'Omnibus package' due to be concluded in 2025. These changes will have knock on effects for banks as they implement the EBA's risk management guidelines (by 11 January 2026), in particular

¹ [Consultation paper on draft Guidelines on ESG scenario analysis.pdf](#)

relating to the information needed to meet the requirements of the guideline and transition plans, which the EBA has recognised as fundamental to underpinning the successful embedding of ESG within the prudential framework:

“The implementation of CSRD, based on detailed ESRS, will significantly and positively impact the data landscape in the EU, for all three pillars of ESG risks and various exposure classes.”²

We take this opportunity to suggest the EBA review those interactions and consider updating the timeline of the ESG risk management guidelines to reflect the impact of the Omnibus directive and a proportionate approach to assessing banks’ compliance with those guidelines. In light of this, we also consider a staggered approach is needed with regard to the scenario analysis guidelines and this should follow 12 months after banks have implemented the guidelines on risk management to allow for embedding of the materiality assessment among other aspects, which is a necessary precondition of the CSA.

Another consideration in terms of timing, is that given the underdeveloped methodology in relation to assessing social (‘S’), governance (‘G’) and some non-climate environmental (‘E’) risks - as acknowledged by the EBA, the exploratory nature of ESG scenario analysis/stress testing tools is focused on climate-related risk, with very little indication of how to do scenario analysis for other ESG factors, nor is this expected in the near or medium-term future. Consequently, these should be removed from the scope of the guidelines for now and updated at a later stage. Failing this, we think the EBA should be much clearer in terms of what is expected for non-climate ESG analysis at a high level in order to promote consistent supervisory application of the guidelines. This should be based on the premise of available, relevant data, the emergence of dedicated recognised scenarios and the development of methodologies which are all prerequisites for performing Environmental risks scenario analysis beyond climate risk.

With respect to the scope of CSA analysis and the proposed CST and CRA, we note that in the past few years both the European industry and the supervisory and regulatory sphere have worked hand in hand to develop ways to assess and model climate change. Through this we recognise the useful role and benefits of CRA to understand long term risks, while also acknowledging several common challenges, which are highlighted by the EBA in the guidelines (time horizons, transmission channels, data, global uncertainty etc.). Consequently, while attempting to model the risks in the longer term (5 + years) is an interesting theoretical exercise, we do not think it is a realistic or viable way of producing any certain or reliable results which could inform business decisions at this point in time.

² [REPORT ON DATA AVAILABILITY AND FEASIBILITY OF COMMON METHODOLOGY FOR ESG EXPOSURES](#), February 2025, in addition para 15 of the ESG Guidelines on ESG risk management states:

“15. Whilst these guidelines are focused on the prudential aspects of transition planning, the EBA emphasises that institutions will need to develop a single, comprehensive strategic planning process that covers all regulatory requirements stemming from applicable legislation (also beyond the strictly prudential, i.e. including CSRD, CSDDD, sectoral legislation, etc.) and all relevant aspects, including inter alia business strategy, risk management, due diligence, and sustainability reporting. Such an integrated, holistic internal approach should ensure consistent outcomes when addressing all applicable requirements, the coordination of all efforts related to transition planning within institutions, the operationalisation of strategic climate targets and commitments, a reduced administrative burden, and the development of risk management arrangements commensurate with the strategies followed by institutions. In particular, an institution that carries out its sustainability reporting in accordance with Articles 19a and 29a of the Accounting Directive⁴ should ensure consistency of information used to comply with these guidelines and information disclosed in accordance with the European Sustainability Reporting Standards (ESRS) and rely on the already available materially identical or significantly comparable relevant information to the extent possible.”

This is not because there is no risk, but rather the level of complexity, ambiguity, volatility and uncertainty is beyond any modelling capabilities in the banking (or any other) sector. Consequently, we are of the view that any form of longer-term detailed balance sheet analysis risks box ticking and unnecessary use of resources, which could be more usefully focused on enhancing the shorter-term scenario analysis which does play a useful role. Indeed, such a long-term exercise could have negative consequences for banks if – as indicated in the proposed guidelines – banks take strategic management decisions which undermine the business model should the modelling not be a valid reflection of future developments. We therefore recommend the scope of the guidelines focus on CSTs, which should be aligned to banks’ strategic planning timelines.

In line with this we suggest re-focusing the guidelines to emphasise the role of short-term stress testing (the CST), which can provide an enhancement to the bank’s existing stress testing capabilities and which feed into systematic risks such as ICAAP and ILAAP, and postponing the CRA exercise to a future update of the Guidelines. Should the EBA maintain the CRA exercise, further clarity is needed on what is to be achieved through such an exercise (financial stability / business strategy?); how to shape scenarios that properly capture the full breadth of risks and complexity with how the period could unfold; and how to implement it operationally. The EBA should explicitly clarify that the results of the CRA do not require any type of management action given the current modelling limitations.

We also have provided detailed comments on the CRA in the body of our response should the EBA decide not to significantly alter the scope.

Question 1: Do you have any comments on the interplay between these Guidelines and the Guidelines on the management of ESG risks?
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We suggest a staggered approach to implementing the guidelines on scenario analysis 12 months after the implementation of the Guidelines on ESG risk management to allow for the embedding of the materiality assessment among other aspects, which are necessary preconditions for CSA. We note the EBA indicated in its public hearing that it is intending to finalise the Scenario Analysis Guidelines in Q4 this year which would allow less than 3 months potentially to implement, which would also come at exactly the same time as the ESG risk management Guidelines (for which the EBA has allowed a year to implement). This would not be practical or feasible. It is also important to consider implementation of the Guidelines holistically with the EBA’s updating of the SREP guidelines, which will provide guidance to supervisors on how to assess banks’ implementation of these requirements.

Likewise – as recognised by the EBA to a certain extent – we would request and support a phased implementation approach within the guidelines themselves, which would facilitate a smoother transition and allow institutions to build expertise incrementally. More flexibility in the application of the guidelines for the first few years of application would be welcome given the highly uncertain nature of scenario analysis. As discussed in the general comments, this would be of the utmost relevance for the CRA if the requirements are maintained in the final version of the guidelines despite industry’s concerns with the above-mentioned limitations in modelling capabilities and in the use of the CRA outcome to inform strategy and business decisions. Phased implementation should also be coherent with the outcome of the current proposals to delay the implementation of CSRD & CSDDD.

While we welcome the EBA’s acknowledgement that banks should initially focus on climate, rather than on non-climate ESG factors, we note non-climate ESG factors are still prevalent throughout the guidelines and in

some instances ‘climate’ and ‘ESG’ are used interchangeably. Indeed, if EBA considers that banks can cover non-climate ESG factors, then guidance on how would be welcomed. At present, there is not sufficient data coverage, scenarios, and models focused on social and governance factors compared to the Climate Scenario domain. We would welcome more explicit clarity on this as per the ESG risk management guidelines (*“Whilst institutions should at least use a combination of metrics related to climate-related risks, they should take steps to progressively include metrics that support risk assessment and strategic steering related to institutions’ exposure to, and management of, environmental risks other than climate-related, e.g. risks stemming from the degradation of ecosystems and biodiversity loss and their potential reflective influence with climate-related risks, as well as social and governance risks.*).

While we appreciate the EBA’s recognition that scenario analysis for non-climate ESG factors is less well developed, we would also go further to suggest that many social and governance factors may not lend themselves to scenario analysis. Indeed, many of these factors may be unnecessary to include in scenario analysis due to being addressed through normal risk management activities such as social factors, which impact institutions’ customers’ business model viability in the medium to long term and may already be included in normal credit risk assessment processes.

In addition, we consider there are some alignment issues with the ECB’s Environment and Climate guide. We would support collaboration between the EBA and the ECB to ensure the difference in expectations between ECB, EBA Risk Management GLs and ESG Scenario Analysis guidelines in terms of climate, environmental and ESG are aligned. For example, the ECB Guide on Climate-related and Environmental Risks states *Institutions are expected to identify and quantify these [climate and environmental] risks within their overall process of ensuring capital adequacy (Expectation 7)*. Most banks were given until 2024 to demonstrate they have achieved climate and environmental risk incorporation into capital adequacy and many struggled to do so.

We also note the EBA Consultation on ESG Scenario Analysis *states institutions should use credible scenarios, based on the most recent scientific knowledge, elaborated by widely recognised international or regional organisations such as the Network for Greening the Financial System (NGFS), the Joint Research Centre of the EU Commission (EU JRC) or national (government) bodies. (par. 28)*. Whilst this aligns with EBA’s expectations in their Management of ESG Risks Guidelines, we would welcome clarification that banks are expected to progress from climate to ESG scenario analysis approaches in line with the enhancement of these organisations’ scope.

Furthermore, there seems to be a timing issue as to when the prudential transition plan is formulated and when a first CRA is required (§25 “The projections carried out on the basis of a central scenario defined by the institution (i.e. the most likely scenario according to the institution) are used to define the strategy, factoring in the ambition set out in their transition plan” vs. § 81: “The implementation of a CRA should support the institution in establishing, and documenting in a substantiated manner, a strategy over a horizon that includes at least the next 10 years, respecting its risk appetite and maximising its probability of achieving the objectives of its transition plan.”). We would support clarity on the need to phase in the CRA following the Prudential Transition Plan, given the timing issue and the interlinkage and need for consistency between the two

Comments relating to the limitations in modelling capabilities and the caution needed when interpreting the results of CSA also extend to risk monitoring requirements under EBA Guidelines on ESG risks management in so far as some monitoring metrics over different time horizons include assumptions based on scenarios.

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

We believe that the role and design of CSA vary significantly based on the specific objectives the exercise aims to achieve, and that the results of each such exercise should be interpreted and used appropriately.

Adapt risk management practices & check capital and liquidity adequacy

Many banks have used CSA, alongside other tools and approaches, to inform their risk management processes in a qualitative way at least. While the outputs of CSA exercises may inform risk analysis, it is important to recognize that climate scenarios are not forecasts of what will happen, but rather a means of exploring how a specific climate scenario could translate into financial risk exposure given a specific set of variables. While this may be a helpful exercise for banks to gain insights into potential areas of vulnerability and financial risk transmission channels, it is not an indicator of the likelihood that these specific events will occur or that the resulting impacts will mirror the dynamics of the variables analysed in the scenario analysis. As such, there is a high level of uncertainty around the underlying scenarios and their likelihood, which can generate considerable variation in estimates of expected impacts and complicates the use of CSA in informing risk management decisions—e.g., with respect to the use of some common risk management tools.

Caution is therefore required when interpreting results because of the high level of uncertainty associated with the climate scenarios and the absence of information on likelihoods, as well as some of the potential transmission channels to financial risks. These challenges are compounded by concerns about reliability and consistency of data and methodological limitations to assessing the impact of climate scenarios on financial risks. Many banks have started with targeted CSA exercises, e.g., to consider impacts on a wider range of risk types (e.g., market risk³⁴) and exposures, or to look at physical and transition risk drivers within the same scenario. In this respect the level of scrutiny from supervisors should recognize ESG risks are less mature than other established risks and that banks will undertake these exercises on a best-effort basis, recognizing that methodologies will change quickly.

While near-term CST could conceptually serve as an input to capital and liquidity adequacy assessment, it is currently challenging for many banks or supervisors to use it in a rigorous and consistent way given that some of the necessary foundations are not in place with respect to knowledge, data and modelling. Similarly, data quality and model validation approaches constitute headwinds to considering CST in an Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP) or broader Pillar 2 context. This is for example acknowledged in paragraph 65 of the draft Guidelines which states that backtesting requirements of Guidelines on institutions' stress testing may not be fully met. Thus, it would be important in particular to ensure, e.g. as part of the forthcoming review of the SREP GL, that the integration of these analyses into ICAAP and ILAAP do not lead as such to supervisory quantitative measures in light of their insufficient level of maturity and lack of robustness, compared to usual ICAAP/ILAAP processes.

³ ISDA, "[Climate Risk Scenario Analysis for the Trading Book - Phase 2](#)," February 2024.

⁴ ISDA, "[Climate-Risk-Scenario-Analysis-for-the-Trading-Book-Phase-III.pdf](#)," February 2025

In addition we note various regulatory, bank and industry initiatives are now shifting their focus to the shorter-term effects of climate risk drivers and have made some progress on short-term scenarios⁵. However, the focus has not been on the specific applicability of these scenarios to trading book assets and timescales, particularly since their time horizon extends from 3 – 5 years, which is too long for the trading book. Thus, the lack of appropriate scenarios is a critical missing component to meet the objectives of CSA for the trading book.⁶⁷ While short-term scenarios for the trading book should be able to capture instantaneous climate risk events, these should also be, to some degree, consistent with, and easily comparable to, existing longer-term scenario narratives.⁸ Likewise the time horizon for the liquidity risk framework should also be reflected on.

Finally, from a purely terminological perspective, we would note that the term “Adapt risk management practices...” assumes that a firm’s risk management practices are inadequate. Industry would propose updating this wording to instead refer to “Assess risk management practices”.

Inform strategy & business model adaptation

It is important to distinguish between the use of climate scenarios as a forward-looking tool to inform strategic analysis and the potential impact of setting, meeting or not meeting targets and commitments, which is a part of broader business strategy and not prudential risk management.⁹ In the context of its work and published materials, the EBA should be cautious about framing use of CSA in a way that could potentially constrain firms’ business models and strategic planning due to the uncertainty of underlying assumptions.. With respect to banks’ business strategy more broadly, what is important is that banks have in place sound governance and risk management frameworks.

Support alignment strategies and transition planning

We would request the EBA give more insight on the expected use of scenario analysis – CST and CRA - within the prudential ‘transition’ planning process (CRD Article 76(2)) and also in relation to the transition plan for climate change mitigation in CSRD ESRS E1-1 (which refers to use of climate-related scenario analysis to inform the identification and assessment of physical and transition risks” over the short, medium and long term)? We note that Figure 1 has this down as one of the “other uses” of scenario analysis but does not provide more detail. **Develop engagement & advice with counterparties**

While it is not the focus of these guidelines, the use “Develop engagement & advice with counterparties” is not applicable for all institutions, or all businesses within institutions. Non-private side employees should not have access to information which would be required to allow them to act as advisors.

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?

⁵ For examples, see the following: UNEP FI, [“Economic Impacts of Climate Change: Exploring short-term climate-related shocks with macroeconomic models,”](#) May 2022. ECB, [“2022 climate risk stress test,”](#) July 2022. NGFS, [“Workstream “Scenario Design and Analysis, Mandate April 2022-2024.”](#) NGFS, [“Conceptual Note on Short-term Climate Scenarios,”](#) October 2023.

⁶ ISDA, [“Climate Risk Scenario Analysis for the Trading Book - Phase 2,”](#) February 2024.

⁷ ISDA, [Climate-Risk-Scenario-Analysis-for-the-Trading-Book-Phase-III.pdf](#), February 2025

⁸ ISDA, [“A Conceptual framework for Climate Scenario Analysis in the Trading Book,”](#) July 2023.

⁹ For example, the ISSB S2 disclosure standard describes those entities “shall use climate-related scenario analysis to assess its climate resilience” within the ISSB’s strategy pillar.

As mentioned in our introductory comments, we do not consider the CRA is a useful exercise at this stage for banks to undertake if the purpose of the CSA is to draw the output set out in figure 1 – we think the CST in the immediate term should be the main focus of banks endeavours. Notwithstanding this, the comments in this answer reflect on the specifics of what the EBA sets out in figure 3 with regard to both CSTs and CRAs.

§18 should be softened in line with §28 when referring to monitor the activity of the various stakeholders not to leverage guidance from. Requiring institutions to leverage guidance produced by e.g. NGO could lead to significant confusion and difficulty. For instance, there are NGOs which publish viewpoints refuting the impact of human activity on climate. As currently proposed, institutions may feel restricted in their ability to select the most appropriate inputs to reflect reality, or to best reflect their own business models and exposures.

We agree with the EBA that ESG Scenario Analysis is still in its early stages. As such, our understanding of the potential interactions between climate and other macroeconomic risk drivers is also developing. To ensure that risks are not ‘double-counted’, multiplied or overlooked in CSA and broader stress testing, further guidance into these interactions is necessary and examples would be welcome (§19) - for instance when referencing made to institutions to leverage ESG stress testing or other resilience testing exercises conducted by the supervisors, does this mean institutions have to reuse the scenarios and their results? And if so, how?

Additionally, we would welcome acknowledgement by the EBA that 10-year CRA may not be appropriate for all of a given institutions’ business or portfolios. For portfolios with short-term exposures (e.g. a year or less) projecting possible changes over 10 years offers limited benefit over a focus on shorter-term analysis. In this respect clarity on what is considered short-term (e.g. 0-5 years) would be helpful (we note figure 3 has CST limited to short term (less than 5) whereas in figure 4 says CST is limited to short to medium term).

It would likewise be helpful to clarify how the CST and CRA lengths interplay with other time horizon definitions for stress testing and disclosure and ensure that they are consistent. For example, in Figure 3, page 11 of the CP the baseline scenario for CST and central scenario for CRA are mentioned. However, there is no clarity on whether they refer to 2 different scenarios, or whether both references are applicable to the same scenario.

Further, while the guidelines acknowledge that CST and CRA should be “interlinked”, the mechanism for this linkage is not specified beyond what is set out in §40 and §41. How should the results of CST inform CRA, and vice versa? Should short-term CST scenarios “nest” within long-term CRA scenarios? Concrete examples would be very helpful. For the CST, we note the dynamic balance sheet requirement can be applied to the credit risk component, however it is unclear whether it can be implemented for all risk types involved in the scenario analysis exercise or if indeed the short-term scenario analysis is just for credit risk given that NGFS scenarios have not yet been published for market risk. Additionally, only a conceptual note has been published, not yet the full modelling approaches.

Furthermore, it should be noted that - at the moment - models (e.g. credit risk models) are calibrated using past data in order to predict future outcomes under the given scenario. In order to meet the expectations, forward-looking models/simulations need to be developed. It would be helpful to further specify which properties these new models should fulfill in more detail, e.g. using examples to convey expectations.

We consider that if the long-term analysis remains as proposed it would also be useful to have an option to be done on a static balance sheet as per the short-term analysis (both dynamic/static).

With regard to transmission channels, this includes highly granular factors such as household income and health (part 5 para 48 (ii)). Banks are highly unlikely to be able to obtain such data from their clients and, even if banks could over time develop the capacity to collect this information, it is not clear to what extent this would be useful information for the sake of scenario analysis. Given this, the EBA should indicate how and where such data should be sourced, without undue burden on banks or their clients.

With regard to assessing compatibility with global warming of 1.5°C in the CRA, it should be noted that CRD6 does not require banks to assess compatibility with global warming of 1.5°C but only to measure risks “arising in the short, medium and long term from ESG factors, including those arising from the process of adjustment and from transition trends in the context of the relevant Union and Member State regulatory objectives and legal acts in relation to ESG factors, in particular the objective to achieve climate neutrality, as well as, where relevant for internationally active institutions, third-country legal and regulatory objectives.” We therefore suggest replacing this as follows: *“To assess compatibility with global warming of 1,5°C” with “To assess gap with regulatory climate goals”*.

Indeed, it should be recognised that in terms of assessing compatibility with global warming of 1.5°C in the CRA we note the 1.5C Net-Zero by 2050 scenario is increasingly out of reach taking note that in 2024 recorded warming was more than 1.5C degrees. A focus on assessing compatibility with global warming of 1.5° may therefore give a rather limited perspective in terms of risk management view (e.g. it would mean risks from Hot house scenario are not considered) (§20). Consequently, we would question the value of assessing an orderly 1.5C scenario with small overshoot.

Additionally, baseline assumptions should incorporate flexibility to allow for the incorporation of regional variability that is likely both in terms of physical risk and transitional risk. For instance, it may be likely that the EU moves ahead of the rest of the world in transition for the near future.

§25 is not clear about how a bank should generate its central scenario. In particular, the EBA should specify that a global analysis must be conducted for the selection of the central scenario and clarify that this selection should focus on the scenario which seems most likely overall rather than one which corresponds to a bank’s specific “business environment”. Further, there is an incongruence within the guidelines regarding how institutions are required to define the most likely central scenario (§25), and later the EBA acknowledges that there is no way to assign it a probability.

§27 of the ‘Background and rationale’ section could be read as preempting that institution’s alignment or commitment to Net Zero presupposes that institutions’ central scenario is a Net Zero scenario.

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

See comments on §19 in Q3 response.

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

Figure 4: Synthetic view of the Climate Scenario Analysis (CSA) framework



Concerning point 2, we suggest the below:

2. Define the scope for the exercise:

- i. From the trading book perspective, the horizon of the climate risk scenario should be sufficiently short-term. It should incorporate short-term market risk shocks such as 1 day, 10-day, 3 month

- and 1-year horizons to be able to capture an instantaneous climate risk event and its effects on financial markets, such as those used in the ISDA Trading Book Climate scenarios¹⁰.
- ii. Depending on the scope of the exercise, different modelling approaches such as bottom-up, top-down, hybrid can be adopted to more effectively assess climate risk.

Concerning point 3:

Consider setting the transmission channels and understanding these before setting the scenarios.

Concerning point 7 we suggest a rephrase as follows:

“7. Use the results. CSA’s results should be used to improve the ability to cope with an uncertain climate future. Management Actions: Encourage counterparties to ***assess, prevent and*** mitigate ESG risks.”

The objective of CST (assess impact on overall capital and liquidity), this seems to be counterintuitive in respect of the provided management action (encourage counterparties to mitigate risks) as different granularity levels are usually applied.

Regarding the terminology to “adjust financial terms and /or pricing based on climate risk considerations” we suggest the EBA reconsiders including this in light of the high degree of uncertainty in stress testing and scenario analysis, hence adjusting financial terms based on this may lead to an inappropriate or inaccurate pricing of risk. Furthermore, in many cases where climate and other ESG risks are material, they are already included in underwriting and risk assessments. These risks are integrated into the wide evaluation, and separating out elements of financial terms which are from ESG factors and those from other factors would prove extremely challenging, with little benefit. We also note this is inconsistent in EBA’s macroeconomic Stress Testing Standards which is absent of this expectation – it seems incongruous these changes should apply for ESG risk but not macroeconomic risk, in particular, since macroeconomic risk has been shown to be more materially financially impacting to banks profitability in a stress.

More generally, we would urge the EBA to avoid being too prescriptive and retain flexibility in respect of how the results are used in management actions. Indeed, the EBA should explicitly reflect the fact that degree of uncertainty around CST and CRA will also be a factor in determining appropriate management actions – it would be damaging to institutions, markets and clients to take management actions based on uncertain potential outcomes far beyond the maturity of exposures. In addition, it should be noted that institutions will take management actions as a matter of course as risks and opportunities emerge – requiring that the elements of these actions pertaining to ESG factors be segregated and evidenced would add unnecessary burdens to institutions without improving outcomes.

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?

To enable industry to implement these guidelines and establish consistency across industry the EBA should provide examples of what ‘good’ looks like. This could be included in a supplementary document separate to

¹⁰ [ISDA, “Climate Risk Scenario Analysis for the Trading Book - Phase 2,” February 2024.](#)

the Guidelines themselves, to provide industry with a view of both what is possible, and what the EBA see as good practice.

We also take this opportunity to welcome the recognition in §29 that a significant increase in granularity will not necessarily lead to a better analysis. In addition, we welcome §50 when specifying that scenario analyses are designed to inform but not dictate decisions. We note that part of the benefits of a scenario analysis come through undertaking the process, rather than from the end result.

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

The data gap on ESG factors is material, even for external providers; taking into account the potentially very narrow deadline of enforcement of the guidelines and ongoing omnibus directive discussions, we would welcome a clearly stated flexible approach from the EBA to be included in the GLs which takes account of this issue. Indeed, we note it can be challenging for a bank to meet its existing general internal model validation standards for CSA exercises as these exercises often require use of new and sometimes low-quality data. The lack of data for back-testing and limited historical precedence – by virtue of the novelty of climate-related risk phenomena— make it difficult to assess the degree of uncertainty in CSA exercise results. Historical data is not in this instance a good form of guidance for the future and risk could be underestimated. 'Forward-looking approaches' should be further specified in terms of what is expected and with regard to the usage of models that rely on past data to predict future outcomes in this regard.

Identification of business risks opportunities cannot be expected as part of the scenario analysis that should provide a 'toolkit to manage ESG risks' as this is not realistic. The EBA should be cautious about framing use of CSA in a way that could potentially constrain firms' business models and strategic planning. With respect to banks' business strategy more broadly, what is important from a regulatory and supervisory perspective is that banks have in place sound governance and risk management frameworks. Also, the link to other EBA guidelines in this term is missing.

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?

Under Paragraph 21 the EBA mentions how firms should approach their assessment of the materiality of ESG risks. For the sake of clarity and avoiding duplication the EBA should delete this sentence and only refer to the materiality assessment covered in the EBA's GLs on ESG risk management (~~"Institutions should focus their analyses on material ESG risks, starting with the most material. To do this, institutions should map ESG risks and transmission channels (see Section 5.2) in relation to the sectoral and geographical exposure of their portfolios and activities. Institutions should refer to the Guidelines on the management of ESG risks when carrying out their materiality assessment."~~.)

The more granular focus on transmission channels and mapping to the sectoral exposures makes the assessments even more complex with limited added value considering the complexity of scenarios, level of uncertainty and interconnections between risk drivers. To mitigate this the EBA should more clearly link the granularity of the transmission channels to the length of the time horizons.

With regard to scientific understanding, it would be helpful to define in which context a new common scientific understanding should be adopted. An update of the scenario analysis for every newly postulated scientific

finding or every changing transition plan seems unrealistic and would certainly be undesirable. Furthermore, §23 only reflects the limitations of scientific understanding in relation to climate risk. We would welcome the EBA explicitly acknowledging the limitation of scientific analysis and data underpinning non-climate ESG factors and the associated ability of industry to reflect these in scenario analysis.

We welcome the fact that these EBA draft GL 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 paragraphs 24 and 25. Nonetheless, proportionality should also be extended to the inclusion and processing of data, not just scenario analysis methods. Moreover, the degree of sophistication of the approach to conducting scenario analysis must fundamentally be commensurate with the degree of development of scientific understanding of the link between the ESG factors and their impacts; stress testing / scenario analysis methodologies; and data availability. Regardless of the complexity of the institution, it cannot conduct sophisticated scenario analysis in the absence of a proven methodological basis and appropriate data. This is also relevant for the application of methodologies to different portfolios within an organisation. For instance, the application of existing methodologies to the trading books, where the velocity of the hold periods is typically significantly shorter, and given challenges in attributing emissions to derivatives or instruments / transactions executed on an agency basis.

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

We agree on the references provided, and suggest the following sources (recommended by TFND) could be added:

- Intergovernmental Science Policy on Biodiversity and Ecosystem (IPBES) <https://www.ipbes.net>
- The Intergovernmental Panel on Climate Change <https://www.ipcc.ch/>

However, It should be clarified that the list included in §28 on the organizations that elaborate credible scenarios is a non-exhaustive list. It should also be clarified that the suggested organizations scenarios could be complemented in terms of geographies, granularity etc.

Generally we note that banks leverage a range of scenarios for internal analysis, including NGFS, ECB, BoE (CBES), Intergovernmental Science Policy on Biodiversity and Ecosystem, the Intergovernmental Panel on Climate Change and other publicly available long-term scenarios, as well as internally produced or externally procured scenarios. The choice of the scenario or scenarios is an important decision – many banks use multiple scenarios and draw on publicly available scenarios, such as those listed above or those used in supervisory exercises, either applying them directly or as a baseline which they adjust. Some banks use internally developed scenarios which are appropriate for their business model and geographical footprint. There can be challenges with using public scenarios, including whether they are sufficiently granular. In this vein, our members are supportive of the evolution of the NGFS scenarios over recent years as they have become richer and more widely applicable across jurisdictions.

Specifically with respect to the trading book, scenario design is highly demanding, and most banks leverage scientifically based anchor scenarios for their CSA in the Trading Book, as very short-term scenarios are not

currently available. Banks use existing scenarios as a starting point and modify these to make them more relevant to the trading book. For transition risk, the NGFS Delayed Transition scenario and the ECB's short-term disorderly transition scenario are the most common scenarios used, followed by the Bank of England's Late Action scenario (with the latter two both based on NGFS scenario pathways). Banks need to expand these scenarios - notably in terms of sectoral or geographical dimensions - to be able to run them. Some banks use scenario builders for this, while others have internalized these capacities. Beyond climate scenario analysis, some banks work on a broader landscape of ESG risk factors, and for this they leverage collective marketplace initiatives to reach the size and knowledge critical mass to design relevant scenarios. In a recent ISDA paper¹¹, most banks indicated that they intend to use scenario families developed by ISDA and the existing NGFS scenarios for climate scenario analysis for the trading book.

Scenario Sourcing:

- The Guidelines should provide more guidance on how to reconcile potentially conflicting information from different sources. For example, NGFS and IEA scenarios may have different assumptions and methodologies. How should institutions choose between them, or combine them in a consistent way?
- The Guidelines should reflect on the requirements for CST (specifically around granularity) vs the suggestion to use these sources. E.g., NGFS provides country emissions pathways but limited information on sector emissions pathways. Hence, banks are forced to make more assumptions or use other providers. Another concern is that the NGFS does not consider/model all sectors (the general trend is agriculture and energy intensive sectors). Indeed, there is significant ambiguity on how to use external sources and the NGFS for regulatory scenarios given they are judgmental and uncertain.
- The EBA should distinguish in the paragraph "setting climate scenarios" the scenarios and their sources, according to whether they are used for the CST (ICAAP) or the CRA. §77 page 36 states that the CRA should leverage on the portfolio alignment methodology outlined in the GLs on ESG Risk Management.

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

We have the following specific comments:

Regarding the factors to be considered in setting climate scenarios covered in paragraph 27:

- The inclusion of "Socioeconomic context" within the factors to be considered in setting climate scenarios appears to specifically contradict the EBA's proposals that its (and institutions') initial focus will be on climate scenario analysis. By incorporating socioeconomics broadly, the EBA effectively incorporates a wide gamut of ESG factors in the analysis. Furthermore, the inclusion of the impact of macroeconomic factors such as inflation, monetary policy, protectionism etc. will lead to a substantial overlap with institutions' wider stress testing / scenario analysis approaches.
- Regarding the consideration of Technological evolution, we would welcome the explicit recognition by the EBA that this should be considered where relevant, as it is not a foregone conclusion that all

¹¹ ISDA, [Climate-Risk-Scenario-Analysis-for-the-Trading-Book-Phase-III.pdf](#), February 2025

scenarios should or will include technological breakthroughs which are commercialized and achieve sufficiently widespread adoption to have a material impact.

- We would also note the extremely unpredictable nature of climate policy, and the fact that this can in fact act directly contrary to the transition in some circumstances. The degree of potential variability in climate policy over a 10-year time horizon will be extremely challenging to factor into scenarios.
- Similarly, the EBA currently implicitly assumes that consumer preferences will shift in line with the transition, however it is entirely possible that consumer preferences will favour cheaper options e.g. in response to cost-of-living pressures, which may be less sustainable, healthy, locally produced etc.
- As described in §27, minimum requirements for scenarios narrative are defined, while in paragraphs §29 and §33 is explicitly required to customize the scenarios reflecting institutions specificity (e.g., complexity, risk profile and materiality assessment). Institutions should be able to define the scenario narratives themselves.
- Paragraph 31 the EBA states that where the factors listed in §27 are not included in a scenario, institutions should assess the potential materiality of the factors and whether the results of the analysis should be adjusted. Given the nascent stage of development in understanding and modelling of many of these factors, we would welcome clarification that institutions are able to also consider whether or not these factors can or should be included in a scenario.

Paragraph 29 does not clearly set out how institutions should include short-term acute effects in case NFGS scenarios do not include these shocks. Are institutions expected that their short-term negative scenarios to assume that a flood/drought or similar occurs with 100% probability? If not, how does the EBA expect institutions to integrate them if they are generally projected based on expected probability and severity. Examples on how to customize transitions scenarios on short term horizon (§29) would also be useful.

In paragraph 32 the guidelines indicate that transition and physical risks should be considered in the scenarios (including acute) but to date we note the official scenarios did not include Acute.

With respect to paragraph 35, it is important that there should be a limited number of scenarios so the CRA remains manageable and effective. In this respect it would be useful if the EBA could confirm the adverse scenarios should only be considered examples of possible scenarios narrative for both CST and CRA purposes and are not mandatory.

Paragraph 36 includes the expectation that institutions consider the exposure of clients to climate risk throughout their value chain. The industry view is that this would be a disproportionate burden on firms and does not reflect recent political developments. Requiring institutions to gather more detailed data from their clients than is required by primary legislation for those clients would in practice circumvent the legislators' efforts to reduce reporting burdens in this space for those firms. Institutions should only be required to use the information which those firms are required to produce under applicable legislation, including the degree to which these firms capture their exposure to climate risk through their value chains.

In paragraph 38 it seems unrealistic if each annual CST should consist of a 'set of adverse scenarios' and would have limited value in terms of management actions.

More generally we would ask the EBA to take into account the following:

The guidelines state that when defining their baseline scenario, institutions should assume a continuation of current conditions and trends and that, except in special cases, there is no significant worsening in terms of assumptions and in the underlying climate, macroeconomic and financial variables. The concept of a "baseline" scenario is particularly challenging in the context of climate change. A "current policies" baseline may be unrealistic, given the stated commitments to reduce emissions. The guidelines need to provide more clarity on how to define a credible and useful baseline scenario. The relationship between a "baseline" and a "central scenario" also needs clarification. It could be helpful for the EBA to make clear that firms should be basing their strategies and business models around their baseline scenario, and that other scenarios are to inform firms of the range of possible outcomes.

Another aspect that could be considered in addition to the company size is the level of ESG maturity (and financial education) of the customer base, this aspect could be phrased as follows:

"Levels of ESG maturity of the institutions main markets: the governance of ESG matters and disclosures of ESG data may significantly depend on the companies' size and competences, in case of low levels of ESG implementation in the strategies and /or disclosure, the scenario could show higher levels of uncertainty".

The EBA consultation mentions the expectation of banks to fill data gaps however the European Commission has acknowledged the requirement 'to enable future users to be able to access and use financial and sustainability information effectively and effortlessly in a centralised ESAP platform'. This was formalised in 2023 under Regulation (EU) 2023/2859 with a commitment to establish the ESAP by 10 July 2027. EBA worked with ESMA and EIOPA to draft the standards with the aim to bring 'higher, equal and indiscriminate visibility of market participants'. The guidelines should take into account here the EU's acknowledged shortfalls and forward-looking plans to rectify data availability.

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

We would welcome clarity on whether the integration of transmission channels apply in the same way to the scenarios used for CRA and CST and in particular whether paragraph 51 applies to the CRA or CST in terms of considering mitigation/amplifications factors. The section 'defining climate transmission channels' is not clear in this respect and we consider the requirements should be less stringent for CRA than for the CST. As the CRA is intended beyond 5 years, it seems unrealistic to ask for all microeconomic transmission channels to be included in the scenarios (46, 47, 48) for the CRA. Even in the short term (CST) it may be difficult to take this into account (e.g.: 48 (ii) "Household income is affected by climate-related disruptions, by gradual deterioration of economic activities, or by impact on health;) in the long run it's even more difficult. In general, there should not be an obligation to consider all microeconomic transmission channels in the construction of scenarios.

The requirements described in §46 seem to be too detailed and specific and should be considered "where applicable" (or similar formulation).

Indeed, regarding the microeconomic channels (§48), getting data related to household health is sensitive and difficult – also knowing to what end it should be used. Moreover, the EBA guidelines on ESG risk management do not include microeconomic factors. The EBA's proposal under paragraph 49 that institutions should assess indirect impact of climate risk on counterparties through their value chain is a level of prescriptive granularity beyond which is required for any other form of risk. Furthermore, this level of analysis is disproportionate to

the degree of risk for many firms and is not feasible given current data limitations. Scenario Analysis is more appropriately conducted at a sector-level basis, rather than counterparty level and this phrase should therefore be removed.

Under paragraph 53 the EBA states that institutions should identify transmission channels as a continuous process. In practice, such an analysis is often impractical, and could lead to a significant burden on firms with limited benefit.

More generally, the EBA makes clear the intention is to start with climate (p16, paras 46/47). However, if the climate-related examples are to be used “as an illustration of ESG scenario analysis, which will then have to be gradually replicated... on the other factors” (para 47). As stated in our introductory comments, we think it would be better if the S&G factors were integrated into the guidelines at a later stage. If this approach is not taken up, then it should be clarified what is expected in order to support supervisory convergence in the application of the guidelines. We would also request for the EBA to confirm explicitly within the Guidelines that the ESAs will update this as industry practice develops.

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

We strongly support the regulator's recognition of the role of expert judgement in quantitative analyses as set out in paragraph 65. This is a critical factor for CST at this stage in its development and is a necessary element for the success of CST.

Please could the EBA also specify the following:

- Why there is such a specific requirement to use a separate IT environment is part of the regulatory expectation. This is a bank specific decision which shouldn't be in scope of such EBA guidelines (paragraph 58).
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- Further specification of "additional stress factors" (§64)
- Whether perspective (economic and normative) is preferred in the CST exercise. (§67)

As detailed in our answer to question 2, we believe that CST are not mature and robust enough compared to existing ICAAP/ILAAP processes to translate directly into Pillar 2 capital and liquidity requirements and would welcome if the EBA can clarify what the expected interplay is between the CST, ICAAP and ILAAP given there is cross over. Furthermore as ICAAP does not have the same objective it should be made clear there is no interaction between the ICAAP and CRA.

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

As mentioned in our introductory comments, we do not consider the CRA is a useful exercise at this stage for banks to undertake – we think the CST in the immediate term should be the main focus of banks endeavours. Notwithstanding this, the comments in this answer reflect on the specifics of what the EBA sets out in respect of the CRA in the guidelines.

In paragraph 76 the EBA states that in order to challenge the resilience of their strategy, institutions should assess multiple scenarios over multiple time periods. This goes beyond the level of specified requirements for scenario analysis in other areas, and there is not yet evidence that climate and transition risks represent material financial risks that are not already considered under existing assessments.

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

The guidelines should acknowledge data gaps, particularly on Scope 3 emissions for SME and non-listed firms. Encouraging collaboration with regulatory bodies and industry groups on data-sharing initiatives would enhance implementation feasibility. In order to accelerate the adoption of these guidelines and reduce costs for European Banks a comprehensive platform with reputable data sources, calculations approaches and estimations should also be made available to ensure consistent implementation of these requirements.

We would welcome insight into how these GLs will reflect the upcoming simplification omnibus packages, which includes changes to reporting under CSRD and due diligence under CSDDD (mentioned in the guidelines in the context of transition plans, p12 para 25 and p36 para 75).

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