

16 September 2025

EBF Response to the consultation paper on Joint ESAs Guidelines on ESG Stress Testing

Question 1 - Please add here any comments on "Title I - Subject matter, scope and definitions"

We generally welcome the objectives proposed in the draft Guidelines for integrating ESG risks into supervisory stress testing and their cross-sectoral orientation. In our view, the intended goals of raising awareness of ESG risks, promoting risk identification, and increasing methodological maturity in supervisory practice are understandable and appropriate.

Question 2 - Do you agree with the list of objectives? Do you have any additional suggestions (addition, removal, precision, etc.)?

Objectives

These guidelines are addressed to competent authorities and should be applied when performing supervisory stress tests, either by integrating ESG-related risks into their existing framework or by measuring the impact of ESG risks under adverse scenarios in a complementary assessment, where applicable according to the sectoral legislation.

We encourage a more differentiated approach when defining the scope of application. In particular, smaller, locally operating institutions with standardized business models should be explicitly identified as target groups for simplified requirements in line with the proportionality principle. When defining the group of institutions eligible for such simplifications, particular attention should be paid to consistency with existing ESG Guidelines (e.g. EBA Guidelines on the management of ESG risks, which provide relief for SNCIs and other non-large institutions).

21. Competent authorities should aim to fully integrate ESG factors into overall stress testing framework.

For regular supervisory stress testing (3yr horizon) it is important to avoid a complementary layer that will generate double-counting with capital add-ons in the end. This solution is consistent with the guidelines' goal of standardizing the inclusion of ESG risks in traditional stress tests. In practice, ESG shocks could be incorporated into typical macro-financial scenarios, ensuring consistency with the existing supervisory model and preventing duplication.

15. *Competent authorities should precisely define their objectives when performing ESG stress testing, considering two main types of stress testing exercises:*

- a. *testing the resilience of capital and liquidity position and the loss-absorption capacity of financial entities in the face of economic and financial shocks linked to all material risks including ESG risks, over a short- to medium-term (e.g. 5 years and below) horizon;*
- b. *testing the resilience of financial entities' strategy and business model to a range of ESG related scenarios over a medium- to long-term (e.g. 5 to 10 years or longer) horizon.*

With respect to the second exercise (i.e. testing the resilience of financial entities' strategy and business model), 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 analyzed in the scenario analysis. As such, there is a high level of uncertainty around the underlying scenarios and their likelihood, and caution should be exercised in drawing strong conclusions in long-term banks' strategy and possible capital increase.

For this reason, we believe these scenarios:

- should only concern the parts of the portfolio that are most sensitive to ESG factors, and not the entire portfolio and
- the proportionality principle should be applicable to limit the scope of the analysis if necessary.

Moreover, we would like to know if the requirements of paragraph 15 regarding the 'S' and 'G' factors will apply starting from the materiality assessment exercise of 2026.

Question 3 - Do you have any comment or suggestion on paragraphs 16-18 on "Materiality assessment"?

7. *In the first phase, competent authorities may focus on climate and environmental risks, addressing both physical risks and transition risks aiming to distinguish effects, even if indirect, on main risk exposures. A gradual approach for the potential consideration of the 'S' and 'G' components of ESG risks could be envisaged also in line with any revisions applied by the ESAs to these Joint Guidelines to explore whether stress testing or other tools can be considered adequate for such assessments.*
16. *Competent authorities should adopt a risk-based approach, starting with a materiality assessment to identify the most relevant and impactful risks and determine which of those material risks shall be part of a stress test exercise scope as determined in the following paragraphs.*

In line with our proposal for a phased in approach to the application of ESG Risk guidelines (Link) competent authorities should focus on the Climate & Environmental components of ESG risk, with particular emphasis on material risk factors from the perspective of financial risk materiality.

As outlined in the Guidelines on management of ESG risks published by the EBA – and applicable from 11 January 2026 – with regard to social and governance risks, where quantitative information is initially lacking, institutions’ internal procedures should adopt methods that start with qualitative assessment of the potential impacts of these risks on the institution’s operations and financial risk profile. These methods should then progressively evolve to incorporate more advanced qualitative and quantitative measures. Institutions are expected to gradually strengthen their approaches in line with developments in regulation, scientific knowledge, data availability, and methodological advancements.

17. As part of the materiality assessment, competent authorities should identify which ESG risks are most material to financial entities, considering their business model, portfolios, geographic exposures, and sectoral activities over a short- to long-term horizon. Competent authorities should consider, over the different time horizons, both:

- the exposure of assets and liabilities to transition risk (for example, based on their carbon footprint) and physical risks (for example, based on their geographical location); and*
- the potential impacts of ESG factors on the traditional categories of financial risks, i.e. market risk, credit risk, counterparty risk, underwriting risk, as well as operational risk, reputational risk and strategic risk through the identification of the main transmission channels.*

It is important to focus only on most material portfolios/asset classes, significantly impacted by environmental risks identified by banks.

Furthermore, the perimeter should consider the availability of data for the portfolios/counterparties being analyzed, as the size of the counterparty and its disclosure obligations significantly impact the availability of data and the possibility of conducting stress analyses.

The requirements for materiality assessments could be made more concrete and simplified. For small and non-complex institutions, as well as other non-large institutions, these requirements should be designed in a practical and proportionate manner. The aim should be to ensure consistency in proportional relief across all ESG-risks-related Guidelines. Accordingly, the same scope of application as defined in EBA/GL/2025/01 should apply.

It should be explicitly permitted to conduct simplified qualitative assessments, for example based on existing internal risk identification processes. A burdensome quantitative materiality analysis should not be expected from small institutions. This should be made clear in the Guidelines.

In all cases, banks should be given sufficient lead time to engage with those risk factors that supervisors consider to be generally relevant for stress tests. Furthermore, effective options should be provided to allow institutions to complete the stress test without being required to build extensive datasets for ESG risk factors that are not material at the institutional level.

The materiality section should also clarify that institutions are not expected to develop extensive stress test scenarios for non-material ESG risks. In cases where multiple ESG risks are identified as material, only the most material ones should be reflected in the stress test design (paragraph 16). Otherwise, there is a risk of creating implicit expectations that would contradict the intention of a risk-based approach.

Question 4 - Please add here any additional comments on "Title II - Requirements regarding consistency, long-term considerations and common standards for assessment methodologies in stress testing of ESG risks - 4.1 Objectives"

19. *Competent authorities should adopt a gradual approach to the implementation of ESG stress tests, initially prioritising environmental risks. In a first phase, competent authorities should focus on climate and environmental risks, addressing both physical risks (e.g., extreme weather events, biodiversity loss) and transition risks (e.g., policy shifts, market re-pricing) aiming to distinguish effects, even if indirect, on main risk exposures.*
20. *This gradual roll-out should be accompanied by continuous methodological refinement, capacity building, and stakeholder engagement, ensuring that financial entities and competent authorities are adequately prepared for the expanding scope of ESG risk assessments.*
21. *Competent authorities should aim to fully integrate ESG factors into overall stress testing framework.*
22. *Competent authorities should review and reconsider as appropriate the types of ESG risks covered, also based on how the availability of data and the use of models develop over time.*

We would like to know if the requirements of paragraph 22 regarding the use of models will apply also to liquidity risks and market risk in the Banking book, starting from the materiality assessment exercise of 2026.

23. *Although these Joint Guidelines do not cover system-wide financial sector stress testing nonetheless, competent authorities should, where possible, coordinate across financial sectors to ensure a consistent approach to ESG risk assessment and facilitate data sharing where appropriate. The banking, insurance, and securities regulators should collaborate with a view to help*

identify and model transmission channels (like for instance the role of insurances on banks loans collaterals), align scenario assumptions, and prevent regulatory blind spots.

24. *Competent authorities should ensure, to the extent possible, that ESG stress tests account for interconnections and spillover effects between financial sectors. They should consider how ESG-related risks can propagate through the financial system, amplifying vulnerabilities across banking, insurance, asset management, and other financial sectors.*

We believe it is essential that regulators (at banks', insurances' and securities' level) coordinate their ESG stress tests, sharing scenarios, macro assumptions, and data where possible. This would avoid regulatory gaps between sectors and would ensure a consistent approach across the financial sector. For example, information exchange and alignment of assumed shocks can improve the consistency of the overall exercise. It is important that competent authorities reduce the discrepancies between assumptions and processes, mainly based on the availability of data and information about mitigating levers, such as insurance on bank loan collaterals. For instance, this could be achieved by leveraging a gross impact approach and ensuring a common and generalized use of insurance by geography (only for scenarios imposed by the supervisor and not for the long term reference scenario that would be chosen by the bank and for which the bank might have embedded insurance coverage assumptions) to mitigate that gross impact in a homogeneous way among banks with exposure in those geographies. Also, given the difficulty in modeling interconnections and spillover effects between financial sectors in the context of ESG stress tests, we believe supervisory authorities should directly embed these factors into the scenarios assumptions.

Additionally, guidance on financial drivers (to be used in assessing the resilience of the business models) to promote homogeneity of assessments across institutions and the effectiveness of prudential monitoring would be appreciated. Clarification as to whether the KPIs used to assess the resilience of the business model would be aggregated, as in the traditional exercises, through the capital ratio, or whether instead there would be an assessment of the impact on each of the risks affecting the business model separately would also be appreciated.

In light of the EU's current Omnibus initiative, we would like to make the following comments:

- First, stronger EU-level efforts are needed to incentivize non-NFRD/CSRD-reporting companies to voluntarily adopt the VSME (Voluntary SME standard) as an ESG data standard to increase data availability
- Second, supervisory expectations regarding the development and applicability of quantitative methodologies built upon stagnant or incomplete data must be appropriately recalibrated. This also applies to the reliability of insights derived from methodologies based on such data.

Question 5 - Do you have any comment or suggestion on paragraphs 27-28 on "scope" and paragraph 29 on "time horizon"?

We note the guidance in the short to medium term mentions “up to 5 years”, however we consider that 3-year horizon should be used to maintain consistency with ICAAP.

We support the objective of defining the scope of application for the Guidelines in a risk-based manner (cf. para. 27), particularly with regard to portfolio, sector, and regional dimensions. For cross-border financial groups, competent authorities should ensure that all relevant entities are included in the assessment. Furthermore, once it is ensured that the main entities and geographies are incorporated into the exercise, making sure that those where ESG risks are most material are duly considered, the inclusion of a residual “Other” category to complete the total balance, as in traditional exercises, should be avoided, given the very high cost in terms of the effort-benefit ratio.

The recommendation to incorporate long-term time horizons (>10 years) as set out in paragraph 28 is theoretically understandable. However, from practical perspective, there are significant uncertainties in implementation—especially in terms of data availability, model maturity, and methodological robustness.

For many smaller institutions, it is currently very difficult to make reliable forward-looking assessments of ESG risks beyond a five-year time horizon. We therefore advocate for a realistic limitation of the time horizon, particularly for institutions with standardized business models and a regional focus - any assessment beyond the five-year mark should be conducted only at a qualitative level (cf. EBA/GL/2025/01 para. 15 and, 4.2 para. 19 says „at least“ not „only“...).

We would also like to reiterate the importance of focusing initially on climate-related risks, as more advanced methodologies and practical experience already exist in this area. Over time, such developments can be gradually extended to include environmental risks. In contrast, social and governance risks (S&G risks) should be considered only secondarily for the time being, until robust measurement and modelling approaches are available.

Overall, we consider the general direction of the proposals to be sensible, but we strongly recommend a consistent application of the proportionality principle. From the perspective of cost-benefit efficiency, it may even be worth reconsidering whether a more detailed treatment of S&G risks is necessary for SNCIs and other non-large institutions. For example, their limited relevance could be sufficiently justified in cases where S&G risks are demonstrably less significant than other risk types.

Such justification might include the following:

- The lower potential for systemic harm from S&G risks compared to environmental risks, which typically affect broader regions (physical risks) or entire sectors (transition risks), whereas S&G risks tend to have more firm-specific effects and are, ceteris paribus, more diversifiable.
- The general lack of clarity regarding the likelihood of significant damage occurring as a result of S&G events becoming public. Historical cases (e.g., violations in textile industry

- supply chains or aggressive tax strategies in e-commerce and tech firms) suggest that even when such issues have been publicly criticized, consumer behavior was often not significantly affected on a broad scale.

Moreover, with no mandatory disclosure obligations for SMEs initiative in the EU the underlying data basis for meaningful analysis of S&G risks in these institutions is becoming increasingly limited.

Finally, a gradual integration of S&G risks would place a permanent burden on institutions to monitor methodological developments and shifts in prevailing academic and supervisory views on the relevance of S&G risks. Given the relatively low informational yield expected from such efforts, this could place a disproportionate capacity burden on smaller institutions.

Question 6 - Do you have any comment or suggestion on paragraphs 30-33 on scenario design and application?

We would welcome further clarity and guidance on several aspects of scenario design and application as outlined in paragraphs 30–33.

First, supervisors should avoid developing overly complex stress test scenarios that are difficult to interpret. Instead, efforts should focus on strengthening the foundations and technical assumptions underpinning climate-economic scenarios. Greater detail from the ESAs on how scenarios are constructed and how their internal consistency is ensured (paragraph 29) would be particularly helpful—especially in terms of underlying macroeconomic assumptions, the treatment of compound risks, and the amplification of initial ESG shocks.

We also seek further clarity on the terminology used, particularly regarding the meaning of “reference scenario.” It should be specified whether this refers to a baseline or central scenario, or whether it is a distinct category that should be defined with its own name and characteristics.

In cases where supervisors provide the scenarios, several considerations are important:

- Scenarios should be delivered well in advance of the exercise to avoid delays and allow institutions sufficient time to process them, especially given the novelty of ESG-related stress testing. Past experience shows that late delivery or errors in the scenarios can significantly hinder the quality and reliability of the exercise.
- The coverage of variables should be sufficiently broad. If key data points are missing, institutions are forced to make numerous additional assumptions, increasing the inconsistency and subjectivity of the results.
- Supervisors should always accompany narrative descriptions with quantitative projections. Relying solely on narratives would increase the complexity and reduce the comparability of results across institutions.

Finally, as institutions are currently most familiar with climate scenarios, the inclusion of broader ESG considerations raises additional questions. More precise guidance on how to integrate social and governance risks, in line with recommendations from sources such as the NGFS and ECB, would enhance the overall reliability and comparability of the exercises across entities.

32. For alternative scenarios:

- *In short to medium-term ESG stress testing, competent authorities should use adverse but plausible scenarios.*
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- *When performing longer-term ESG stress testing and relevant risks impact assessment, competent authorities should consider several distinct scenarios (or narratives) covering the broad spectrum of possible futures and levels of severity.*
- *Competent authorities may decide to apply the same scenarios to all financial entities for comparability or to tailor scenarios to specific categories of financial entities, considering their risk profiles and business models.*

It is important that there should be a limited number of scenarios (2-3 maximum) so that both the stress test analysis (capital/liquidity and strategy/business resilience) remains manageable and effective.

Question 7 - Do you have any comment or suggestion on paragraphs 34-36 on "top-down vs. bottom-up approaches"?

We would like to highlight the following points in particular:

1. Consider top-down approaches in certain cases

For many institutions—especially small and medium-sized ones—a full bottom-up stress test is currently not realistically feasible due to a lack of ESG data, limited modelling capacity, and constrained resources. Therefore, the top-down approach should be explicitly permitted and established as the preferred standard method, particularly for less complex institutions and especially in the context of sector-wide supervisory exercises.

2. Bottom-up approach only when methodological maturity exist

The bottom-up approach may be suitable for large institutions with advanced methodological capabilities. However, it should not be mandatory for less complex institutions as long as an adequate ESG data base and evaluation logic are not in place. This is particularly important given that the ESG data landscape is expected to remain stagnant—if not deteriorate—due to the effects of the Omnibus initiative, which will further slow the development of advanced methodologies.

3. Stronger emphasis on the benefits of top-down approaches

Although top-down approaches may lead to less favourable results for individual institutions due to the neglect of specific characteristics, the Guidelines should place greater emphasis on their advantages—especially the relief they offer for institutions and the enhanced comparability of results. This is particularly important to ensure broad-based, consistent, and practical implementation.

4. Consider cost-benefit trade-offs

There is a general trade-off between less resource-intensive supervisory stress testing and more granular, institution-specific testing that may yield more tailored results and potentially lower capital add-ons. Particularly in the case of resource-intensive bottom-up approaches, it is essential to weigh the implementation burden against the added value for both supervisors and institutions. Excessive effort without meaningful insight may reduce acceptance and perceived value of the stress testing framework.

5. **Enable hybrid and phased approaches**

Hybrid approaches that integrate both top-down and bottom-up calculations should be allowed. Banks should have the option to perform bottom-up calculations using their own models in accordance with relevant climate scenarios, while less advanced banks could default to top-down calculations. This strategy would support a gradual transition as expertise in Environmental, Social, and Governance (ESG) matters develops.

In general, we support the freedom of choice between top-down and bottom-up approaches. However, we strongly advocate for a clear preference for top-down methodologies in the case of smaller and less complex institutions (and potentially other non-large institutions). What matters most is a methodologically realistic implementation that respects the proportionality principle and enables an efficient execution of stress tests.

6. **Transparency is essential** to ensure institutions can meaningfully interpret the results of top-down supervisory stress tests. Therefore, we call on competent authorities to provide institutions with detailed and understandable documentation of the methodology used when conducting top-down stress tests. Afterwards, the results should be explained and analysed in a methodologically sound manner, enabling each institution to independently derive appropriate measures.

Question 8 - Do you have any comment or suggestion on paragraphs 37-40 on "level of granularity"?

The level of requirement for the input granularity level of the stress test must take into account the usability of the output granularity level of the stress test and the aggregation of stress test results from banks participating in the exercise. There is no point in having overly granular data as input to the stress test if this level of granularity is not usable/exploited in the output of the model.

It is not always possible to obtain the location of portfolio exposures. Therefore, the requirement for geographic granularity at the NUTS level 3 should be relaxed by applying the principle of proportionality.

As regards the level of data granularity described in paragraph 37, we would like to point out the practical challenges in achieving granularity beyond the industry level (e.g. at the level of specific technologies such as “breakthrough technologies”). Such granularity may not be currently feasible due to data limitations and classification ambiguities.

Additionally, we would like to highlight that breaking down physical and transition risks by risk category could also be difficult to operationalize. For instance, in the case of transition risk, it may not always be feasible to clearly distinguish between impacts driven by policy changes, technological shifts, or market dynamics, especially when such drivers interact or overlap

We would therefore suggest that the guidelines adopt a more pragmatic approach, acknowledging that, for most authorities and institutions, sectoral-level granularity — both for exposures and risk drivers — remains the most realistic and actionable target in the near to medium term.

Finally, there is a strong emphasis across the guidelines on separating risk analysis by physical, transition, etc. To do this, it is necessary to ensure that scenarios are provided, splitting the impacts by all these categories. Otherwise, the exercise would be not feasible.

Question 9 - Do you have any comment or suggestion on paragraphs 41-44 on "balance sheet assumptions"?

- 40. For ESG stress tests, competent authorities should start by using a static balance sheet approach, which is commonly applied in traditional stress tests. However, they may consider the structural impacts of financial entities' transition plan, where feasible and applicable, depending on the time horizon.*
- 41. For medium- to long-term exercises (e.g., time horizons exceeding five years), a dynamic or 12 constrained dynamic balance sheet approach could be applied to ensure greater realism, reflecting changes in portfolio composition (evolving exposures, asset reallocations and risk-mitigating actions in response to ESG-related shocks).*

We would like to know if the requirements of paragraph 41 regarding the use of a dynamic balance sheet will apply also to liquidity risks and market Risk in the Banking book, starting from the materiality assessment exercise of 2026.

Question 10 - Please add here any additional comments on "Title II - Requirements regarding consistency, long-term considerations and common standards for assessment methodologies in stress testing of ESG risks - 4.2 Principles and methodological considerations"

We suggest providing further clarity on the criteria to be applied for the inclusion of foreign subsidiaries' portfolios within the scope of ESG stress testing exercises. In particular, we would welcome alignment with existing supervisory practices used in current regulatory stress tests, ensuring consistency in the treatment of cross-border entities and avoiding methodological divergences. Additionally, it would be helpful to understand whether a differentiated approach will be allowed for "non-material" portfolios. In such cases, we would appreciate specific guidance on whether institutions may adopt simplified assumptions, disclosure requirements, and calculation methods, in proportion to the relevance and size of the portfolios involved. This

would help ensure proportionality and focus analytical efforts where they are most impactful, in line with the materiality principle.

46. Competent authorities should apply proportionality principles, allowing for methodological simplifications in relation to the size, nature, and complexity of financial entities' activities. The proportionality principle should extend to reporting

requirements, scenario design, and modelling expectations, ensuring an adequate balance between analytical robustness and practical feasibility.

Reflecting the proportionality principle and the inherent challenges of conducting an assessment for business purposes over such a long time horizon (>10years), we deem that both qualitative

and quantitative approach should be foreseen by the regulator. Qualitative outcomes should be appropriate for longer time frames, where uncertainty increases and data limitations are more pronounced. This mixed approach should ensure that the analysis remains both meaningful and operationally feasible while still offering insight into the potential strategic implications of different climate paths.

Question 11 - Please add here any comments on "Title II - Requirements regarding consistency, long-term considerations and common standards for assessment methodologies in stress testing of ESG risks - 4.3 Organisational and governance arrangements"

Data collection

53. For top-down exercises, competent authorities should rely, as much as possible, on regulatory reporting and leverage existing disclosure frameworks and external resources where relevant. They may consider ad-hoc data collections as a necessary complementary source of information. Collected information should be limited to the one used for the analyses and validation.

The scarcity of data to be used in the analyses (e.g., GHG emissions, emission reduction targets, type of energy sources used), as well as the different coverage among portfolios/geographies must be accurately taken into consideration and drive the choices in terms of type and perimeter of analyses. Furthermore, some providers serve only certain industries/geographies or client types, and different providers often provide different data. In such a fragmented and heterogeneous context, the data is expected to be provided by the regulator based on common disclosure frameworks and external resources, limiting as much as possible data collection from Financial Entities to avoid asymmetries and ensure consistency of analysis and judgment.

54. Where data gaps exist, competent authorities should promote the use of reasonable proxies, estimates, and expert judgment, while encouraging financial entities to improve internal data capabilities over time.

Proxies must be identified and ruled properly to avoid asymmetries and ensure consistency of analysis and judgment.

59. ESG stress test results should be, to the extent possible, integrated into the broader supervisory process. As methodological aspect and availability of data develop over time, competent authorities should use the findings to inform risk assessments, capital adequacy reviews, and/or strategic discussions with financial entities.

While we acknowledge the importance of incorporating climate-related risks into the broader supervisory process, we believe that the current level of models' maturity does not yet support the use of quantitative results from climate stress tests to inform capital requirements.

The methodologies and models used for climate stress testing are still evolving, and climate-related risk assessments are subject to significant uncertainty, both in terms of scenario design and transmission channels.

We would therefore recommend that, at this stage, climate stress test results be used for exploratory and risk identification purposes only, and not to determine capital adequacy. A more robust use of these results for capital planning should be considered only once methodologies and modelling practices are sufficiently consolidated and harmonized across jurisdictions.

60. The results should also guide supervisory follow-up measures and policy recommendations where ESG risks are identified as likely to pose material threats to financial stability.

ESG components of adverse scenarios should remain severe but plausible and consistent with macroeconomic dynamics.

61. Publication of results should be in line with relevant sectoral regulation and supervisory practice. When choosing to publish results, Competent authorities should weigh up the comparative benefits of publishing individual anonymized or aggregate results. The level of disclosure should be calibrated based on the reliability of the methodology and the quality of the data. Competent authorities should consider that transparency enhances market discipline, stakeholder confidence, and accountability. They should also ensure that information is interpreted correctly and does not lead to unintended market distortions. Disclosure can increase as results become more robust.

Publication of ESG results should be very cautiously implemented favoring aggregated results for ESG information until proper understanding of challenges associated to that.

To avoid potential misalignments or duplication, it is important that any public disclosure follows the same principles, terminology, and reporting formats already used in current regulation. In this context, we recommend that competent authorities initially favour the publication of aggregated ESG results until methodologies, data quality, and interpretation frameworks reach a sufficient level of maturity. A phased approach would reinforce comparability, limit the risk of unintended market distortions, and promote a clear and harmonised understanding of ESG-related financial risks across institutions.

Question 12 - Do you have any additional and/or general comments on the Consultation Paper?

We would appreciate clarification on whether these guidelines will apply to the expected 2027 Stress Test or whether they will already apply to subsequent stress test exercises. We believe that supervisors need sufficient time to implement these guidelines properly.

We welcome the initiative by the three European Supervisory Authorities (ESAs) to develop these Guidelines as a means of ensuring the consistent and long-term integration of ESG risks into supervisory stress testing. Clarifying supervisory expectations regarding methodology, organisation, and governance can make a valuable contribution to the harmonisation and further development of ESG stress testing practices.

In this context, it is particularly important to ensure the consistent application of the proportionality principle and to adopt a pragmatic approach to existing data and modelling gaps.

It should also be ensured that supervisory stress tests are not primarily used as a tool for data collection. Only information that directly feeds into risk calculations and has a clear and demonstrable relevance to the stated purpose of the stress test should be requested.

In addition, we recommend that supervisory expectations regarding quantitative models—and their future development trajectories—be adapted to reflect the evolving landscape of ESG data availability. Recent developments, such as the EBA's *No Action Letter* on ESG risk disclosures under CRR III, already point to a growing synchronisation between ESG disclosure obligations and ESG regulatory developments (e.g. Omnibus) as well as supervisory practices (see e.g. ECB opinion on proposals on corporate sustainability reporting and due diligence requirements). However, particularly in the context of Pillar II, further adjustments and clarifications remain necessary.

Question 13 - Do you have any comments on the Impact Assessment?

We support the chosen Option A.3: *"Focus on environmental risks, in particular climate risks, while also providing guidance on the other environmental, social, and governance factors."* Nevertheless, it should be noted that this option—albeit to a lesser extent—also includes nature-related risks, such as biodiversity loss. The transmission channels of nature-related risks are even more complex than those associated with climate risk drivers. As a result, the estimation of their sensitivities to traditional risk categories is still in its infancy. Furthermore, both the data availability and methodological frameworks for nature-related risks are currently at a lower level of maturity. This should be taken into account.

In addition, the Consultation Paper does not appear to provide any specific guidance on social and governance risks. From this, we infer that the inclusion of these risks in stress testing is not yet expected. However, we recommend that such guidance be developed and added in the future.

We also support the proportionality-focused Option B.2: *"Competent authorities will be required to focus on the most material ESG risks."*

About EBF

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