

11 June 2025

EBF Proposal for the phased in approach to the EBA ESG Risk Management Guidelines

European banks remain committed to sound risk management. The EBA guidelines are regarded as a positive step in this regard but require more time for implementation and more effective proportionality to some extent, as this imply (i) significant new requirements in addition to the current framework based on ECB climate and environmental risks guidance and (ii) it be impacted by ongoing simplification efforts related to ESG reporting

While banks welcome and support EBA's goal of integrating ESG risk considerations into the prudential framework and remain committed to strengthening their ESG risk management practices, they flag several areas where more time and flexibility is needed to address implementation challenges—including limited data availability, immature market methodologies and the need to upgrade internal processes. The critical operational constraints our members are facing include challenges in conducting robust materiality assessments, quantifying ESG risks (especially climate and nature-related risks), aligning data collection processes with evolving disclosure scopes, and adapting legacy risk models to accommodate ESG inputs.

The EBA Guidelines were developed with reference to existing legislation such as the CSRD, ESRS, and CSDDD. However, these frameworks are now undergoing substantial revision through the Omnibus review of the EU Sustainable Finance Package with the aim to simplify them as well as exempt certain undertakings from their scope. As approximately 80% of firms (if not more, depending on the final text) may now be excluded from the CSRD reporting scope, banks will receive considerably less structured ESG data from counterparties compared to expectations. This further restricts the availability of reliable, consistent, and comparable information required for implementing the Guidelines as intended.

This is even more relevant for data available regarding **social and governance aspects**. Moreover, the maturity of analysis, data quality and methodology for non-climate environmental risks (e.g. biodiversity) and social and governance risks, is still low.

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While with the CSRD the available data related to S&G aspects is expected to increase (for companies in scope), it is important to take into account the different effective dates established in the regulation and the time needed to develop methodologies and integration in banks' risk management. At this stage, we believe qualitative assessment, where relevant, should be considered sufficient and requirements for **S&G should be incorporated in a phased approach**.

We support the simplification agenda of the European Commission that should be extended beyond the Omnibus initiatives. Simplification in our view does not inherently conflict with effective risk management; in fact, it can enhance it:

- The key is to prioritize the quality of information over its quantity.
- Having too many quantitative targets in the same time makes it difficult for teams to prioritize effectively.
- It is crucial to strike a balance between data-driven analyses and acknowledging the limitations of what can be effectively measured
- While the principle of proportionality is rightly emphasized in the EBA guidelines, articles 28 and 81 related to minimum data gathering list and metrics to be monitored appear somewhat contradictory to this stance. There should be greater flexibility for banks to select relevant metric commensurate to their business models.

European banks have made substantial progress in C&E risk management over the past three years (closely followed by the ECB through supervision the implementation of its guide and stress testing). While further advancement is necessary, **we do not see an immediate urgency for our industry's resilience that justifies such a short implementation timeline of EBA guidelines**. Given the duration of banks' portfolios and the progress to date, **we believe a continuous improvement approach for the next 2 to 5 years seems to be more appropriate**. Considering the above, we suggest **postponing the ESG Risk management Guidelines' application deadline – along with that of the upcoming guidelines on ESG Scenario Analysis – until the Omnibus amendments are finalized, and a revision of the EBA Guidelines in the spirit of the Omnibus simplification and for consistency with the final versions of the CSRD/ESRS1 and CSDDD**.

Should it be impossible to defer the implementation date of the EBA ESG Risk Management (and ESG Scenario Analysis Guidelines), we would urge that:

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1. *The EBA and the SSM issue a public statement defining phased-in implementation of the EBA Guidelines for banks and NCAs, taking into account the complexity of the individual EBA requirements and data availability, and in alignment with the ECB Guide*
2. *A no-action letter be issued (no legal actions stemming from the EBA GL) as a complementary action*

To contribute to the definition of the phased approach, we envisage implementation of the specific requirements of the Guidelines in the following **three phases**:

- **Phase 1:** Implementation by **11 January 2026** (as originally planned). This phase applies to the requirements *not* included in this document.
- **Phase 2:** Implementation by **end of 2026**. This phase covers requirements listed in the table below that are more complex but may be feasible within an extended timeframe.
- **Phase 3:** Implementation by **end of 2027**. This phase applies to the most challenging requirements in the table below, where major data, methodological, or process gaps exist.

The table below outlines the **EBF's proposed phase-in approach** for selected requirements under the EBA Guidelines, which are considered premature in terms of market readiness, mainly for the following reasons:

- Limited availability of data. The existing data is either insufficient, unreliable or not yet standardized, especially for nature and S&G related aspects. To differentiate our considerations on different matters, we have **highlighted in blue the proposals related to S&G in the table** presented below;
- Institutions must undergo substantial internal changes, including IT system redesigns, data governance upgrades, or staff training;
- The methodologies are still evolving or lack market consensus (e.g. nature-related risk assessments, social and governance aspects, ESG integration into rating models, and portfolio alignment methods);

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- Key supervisory guidance (e.g. EBA's ESG Scenario Analysis Guidelines) is still pending, making early alignment impractical.

Even with the Guidelines' flexible design, practical implementation in these areas will initially depend heavily on qualitative inputs, assumptions, and proxies—thereby reducing comparability across institutions and increasing methodological uncertainty.

Additionally, obtaining meaningful risk insights across a counterparty's value chain remains unrealistic, at least in the short term. We therefore recommend that the EBA explicitly clarify that expectations should focus on risks associated with **direct counterparties**, allowing for proportionality and feasibility in implementation.

We stress that these challenges are transitional in nature, not a retreat from ESG risk management. European banks will continue developing internal capabilities and expanding ESG integration as the regulatory, methodological, and data environments mature.

EBA Theme	Paragraph	Requirement	Reasoning for phase in	To be postponed to
4.1 Materiality Assessment	14	Institutions should ensure that the scope of their materiality assessment sufficiently reflects the nature, size and complexity of their activities, portfolios, services, and products.	Inclusion of additional requirements such as e.g., consideration of revenues/ profit. • With CSRD, the available data related to 'Social' and 'Governance' is expected to increase (for companies in scope); however, it is important to take into account the different effective dates established in the regulation. Further, it is important to maintain	Materiality assessment of S&G aspects to be postponed to Phase 2.

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			consistency with the S and G criteria in the CSRD. Fulfilment of the requirements for the materiality assessment of Environmental aspects as outlined in the ECB guide should be deemed sufficient for compliance with the requirements set in the EBA GLs on the same matter.	
	15a (ii)	Inclusion of potential future material changes in public policies, technologies and market preferences	- Initially assessed qualitatively due to the complexity involved in encompassing all relevant developments (e.g., per sector) and the quantification approach, considering the overlap and interconnections among topics. Starting with key sectors/regions or ESG factors would be reasonable. - Challenges in the collection of data points to identify physical risks at various company locations (project, production, and administrative sites) - The transition risk definition must be well defined to provide guidance to	S&G aspect to be postponed to Phase 2

			banks. Support is needed to avoid stranded assets. The GLs should be aligned to the requirements set out in the ECB Guide, their fulfilments should be considered sufficient for the purpose of this article	
4.2 Identification and measurement of ESG risks	18, 19, 20, 20a, 20b, 21, 22	Overarching requirements for assessment methods (e.g., consideration of short- to long-term risk development)	- Requirements already partially fulfilled (e.g., short- to medium-term risk development) in alignment with the ECB Guide. Avoid requirements in excess of those outlined therein. - CRA and CST definitions and applicability must be first specified in the EBA's ESG Scenario Analysis Guidelines which are still pending	The guidelines should be amended as to address this point.
	20	Requirements related to nature-related risk which are still in their initial stage, especially from a data and methodologies perspective	Initial steps are being taken to carry out identification, evaluation, management, and assessment, Para.20 refers to the following: " <i>b. properly understand <u>the financial risks</u> that may result from other types of environmental risks, such as those stemming from the degradation of nature, including biodiversity loss and the loss of ecosystem services[...]</i> ".	Phase 3

			The understanding of risks arising from nature degradation is primarily focusing on analyzing banks' exposures to certain sectors with higher impacts and/or dependencies and on evaluating how the degradation of nature could impact their credit portfolios (areas with greater development). The analysis of this driver in risks such as operational risk or market risk still requires further development. Unlike for climate risk, the literature, standards and methodologies related to biodiversity and impact are scarce at this stage.	
	20	Quantify climate related risk	Compliance with this requirement will require substantial efforts in data collection, modelling and analysis to quantify the impacts of transition/ physical risk in the medium and long term. To align the EBA requirements with the CSRD requirements, there should be a phase-in, since, for anticipated financial effects of material impacts, some phase-in	Phase 2

			allowances are provided in Appendix C of ESRs 1.	
	22	Interconnectedness between E, S and G.	Assessment of the interconnectedness between E, S and G pillars will initially only be conveyed at high-level due to lack of methodologies for integration Harmonization between CSRD and CRR KPIs would be first needed to avoid double reporting.	The guidelines should be amended as to address this point.
	23	Institutions' internal procedures should provide for the implementation of sound information management systems to identify, collect, structure and analyse the data that is necessary to support the assessment, management and monitoring of ESG risks	• Tendering, design, and implementation are complex and cannot be reasonably expected to be completed before 2027. • Implement robust information management systems to identify, capture, structure, and analyze data as part of the overall data governance and IT infrastructure across the institution • Beyond methodology, one of the most important issues is the lack of data. The use of proxies must be considered to solve the lack of data. This issue will be probably bigger for banks after the Omnibus package adoption.	Institutions will comply with this requirement proportionally to the best available data.
	28	Collection of data from clients – list corresponding to current CSRD disclosures subject to	• Misalignment between the definition of large companies under the scope of	Phase 3, to allow for adjustments

		modification to its scope under the Omnibus review	the CSRD and the definition of large companies under the CRR We expect the EBA to adjust the guidelines with CSRD scope accordingly but, in any case, some time should be given to financial entities once the Omnibus package is final, so that they can adjust their sources, procedures, etc. to the final availability of information.	with the Omnibus package
	4.2.2 Data processes: paragraphs 28, 28a) i), 28a) ii), 28a) iii), 28a) iv), 28a) v), 28a) vi), 28a) vii), 28b), 28b) i), 28b) ii), 29, 29a, 29b	Data and Methodology – i.e., adaptation/extension of existing assessment methods and corresponding data enhancements	- Requirement primarily serves collection/ obtaining of relevant data points (wording: "(...) should consider collecting or obtaining"); direct adaptation/ extension of existing assessment methods to be considered subsequently - Respective handling of the requirements: prioritization of ESG data collection, subsequent utilization within existing/ further developed sustainability metrics - The list of data points required is very extensive and requires the implementation of different data	- Phase 2 - Quantification of S&G to be postponed to phase 3

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			sourcing techniques – e.g., retrieval via external providers, direct retrieval from the counterparties' reports (involving a combination of manual effort as well as effort for further development of AI-based tools), further development of proxy-tools, collection of information via qualitative questions etc. That is why, substantial effort in the data collection is expected.	
	31	Integration of ESG factors in internal rating models as well as into the valuation of collateral at exposure level.	• Absence of significant historical series and solid methodological bases. • Pertaining to IRBA accredited institutions, changes to rating models are subjected to rigorous regulatory scrutiny and approval procedures. This compulsory model change policy appears to be incompatible by design with the envisaged implementation schedule.	Phase 3
	32	Assessment of environmental risks at exposure level	• Requirements already partially fulfilled (e.g. degree of vulnerability to transition risk), however methodological adjustments/ extensions as well as	Phase 2

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			inclusion of additional risk drivers (e.g. biodiversity loss) are needed • The customer data points that need to be collected require time to achieve adequate portfolio coverage. • Scope of necessary methodological fine tunings will involve significant efforts in terms of capabilities, expertise, and resources	
	34	Assessment of litigation risks of counterparts	Litigation risk disclosure is not required by CSRD. In addition, such risk should already be considered in the customer's provisioning. The question is to what extent this will lead to double counting. This does not mean, however, that banks do not collect any information. They can do this in a variety of ways, including not directly with their customer. For example, alerts can be set up on controversies concerning a counterparty, via a data provider	Removal or at least Phase 2
	30-35	Sector-based, portfolio-based and portfolio alignment methods	It is necessary to delay the implementation of paragraphs 30 and 35, regarding sector-based methodologies and their implementation, to ensure that banks can integrate these new requirements	Phase 3

			adequately and in alignment with their strategies and operations.	
	36	Nature-related risk measurement	- The evaluation of nature-related risks is still in its infancy. Para. 20 of the Guidelines requires an "understanding" of these risks. However, Para.36 goes a step further by including the need to develop tools to measure financial impacts. Meeting this requirement will involve efforts in terms of capabilities, expertise, and resources, as well as improvements in methodologies and data. Also see 4.2.20) - Portfolio impact (partially) assessed through top-down analyses (extensions for site-level assessment initiated) – inclusion in existing sustainability metrics and process integration to be considered subsequently, since it will involve significant efforts in terms of data and methodological advancement and alignment with uses of sustainability metrics	Phase 3
	36b	Measuring the positive or adverse impacts of their portfolios on the	Completely new requirement which is not based on a risk perspective approach	Phase 3

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		achievement of the UN Sustainable Development Goals and evaluating potential related financial risks		
	37-38, 42	Portfolio alignment method and Scenario Analyses	• Focus on portfolios and sectors with existing decarbonization pathways. • Enhancement of the forward-looking approach for the most material sectors/portfolios. Regarding the obligation to define a portfolio decarbonization plan in line with scientific scenarios and consistent with European commitments, it would be useful to: • Leave open the possibility of resorting to qualitative or managerial approaches, at least initially; Apply a principle of proportionality regarding the portfolio that is subjected to the decarbonization plan, which is also closely linked to the type of client companies (e.g. smaller banks are more exposed to SMEs, in the absence of a	Phase 3

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			decarbonization plan for the individual company it is necessary to use sector data, the need to include them in a decarbonization path could generate the risk of discouraging credit to certain economic sectors) and/or to the areas of activity of the bank (e.g. credit provision, investment in financial instruments on its own account, asset management, ...).	
5.1 ESG Risk Management Principles	46	Risk Management tools (client engagement, sectoral policies, pricing)	Should be driven by the proportionality principle and leveraging on the foundational work already initiated in ECB C&E guidelines. Regarding data collection and client engagement, the mandatory list of 16 metrics to monitor at Management Body level (and to be taken into consideration as RAS metrics, portfolio alignment with measurement of alignment / misalignment to EU ambitions) has proven very demanding. Also it is a challenge to break down bank portfolios by country and measure their	Phase 2

			alignment with relevant country objectives and the Prudential Transition Plan.	
5.2 Strategies and business models	48	Forward-looking risk assessment methods	Should be driven by the proportionality principle and leveraging/enhancing current ICAAP methodology and tools. Considering that the main part of the mitigation actions to reinforce the link with strategy and planning will be the CRA (Climate Resilience Analysis – as outlined within EBA GL on ESG Scenario Analysis) and that the final version of this GL will be delivered 2025 year-end, banks will complement their work of structuring their risk frameworks in due course. Please see comment in the next row. Concerning S&G aspects, the lack of data for back-testing and limited historical precedence makes the implementation difficult for banks. Clarification is also needed on the potential impact of setting, meeting or not meeting targets and commitments, which is a part of broader	To be postponed to Phase 3 for what concerns S&G aspects only

			business strategy and not prudential risk management.	
	47-49	Long term resilience / business model	Given that the GLs are still in draft version and that the Climate Resilience Analysis is a new concept, postpone by one year the results of the analysis of the resilience of the business model.	Delay to Phase 2 or Phase 3 (depending on publication of EBA Guideline on ESG scenario analysis)
5.5 ICAAP and ILAAP	60-66	Internal capital adequacy assessment process and internal liquidity adequacy assessment process	- The forthcoming <i>ESG Scenario analysis Guidelines</i>, with a dedicated section on Stress Test, have not yet been published by EBA. - The disclosure of internal capital to cover ESG risks must be consistent with the scenario analyses performed. Accordingly, synchronization with the entry into force of the requirements for business model resilience/climate resilience analysis is necessary (see also 47-49).	The recognition of principle of proportionality in the deployment of these factors is needed, because even when the ESG factor is judged to be material for a given risk category, its impact in terms of capital needs in

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			Some fine-tuning will require further analysis, process and methodological adjustments, therefore banks will continue to work on this in the second half of 2025, fine-tune/ perform dry run in 2026 and could be expected to go live in Jan 2027	relation to the capital of a bank need does not always justify the urgency of its integration into the ICAAP. Should that not be possible: to be postponed to phase 3.
5.7 Monitoring	79, 17, 51, 52, 83, 112	Granular and frequent monitoring	- Dependence on data availability. - Scope to be determined by materiality and the feasibility of steering upon the monitoring metrics. - The metrics developed in 2025 can only be incorporated into the risk strategy, risk appetite, internal risk reporting, and transition plan later.	Phase 2

	81	Group-level metrics ¹	Historical credit risk losses: the definition and identification of these losses is complex and requires uniformization before implementing this data collection	Phase 3
	81	Monitoring of new metrics: Low-carbon energy supply technologies ratio: Brown to green ratio	- Low-carbon energy supply technologies ratio: this ratio does not give us a relevant indication of the misalignment risk as it would aggregate clients with different situations in term of trajectory/ credit risk - Brown to green ratio: close to GAR, would make more sense but only one indicator should be produced These are new metrics that are not linked to a risk-based approach.	Should be monitored if deemed relevant by the institution given the whole set of metrics developed by the institution. If not possible, this should be phase 3 as it is not the priority from a risk perspective

¹ Cancel / replace the indicators that are not useful / for which the objective is already covered

- **Low-carbon energy supply technologies ratio:** this ratio does not give us a relevant indication of the misalignment risk as it would aggregate clients with different situations in term of trajectory/ credit risk
- **Brown to green ratio:** close to GAR, would make more sense but only one indicator should be produced

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6 Prudential Transition Plans	84-114	Key contents of the plans	• Leverage on existing CSRD transition plans. • S&G to be considered in the next phase, contingent on data availability and the evolving landscape of scenarios and methodologies. • Range and complexity of the scenario analyses should be proportionate to the materiality of the portfolio/sector and relevance to the business model. Additional quantitative metrics to be introduced over time.	Phase 3
			• Financial conglomerates consisting of banks and insurance companies face the challenge of being consistent with the Prudential Plan on Sustainability Risk required by the insurance supervisory regime. We propose postponing the initial application of Chapter 6 to at least one year after publication of the amended Solvency II Directive (or, as an interim measure, by	• Delay to Phase 2 or Phase 3 (depending on publication of adjustments to Solvency II Directive and EBA CP on

			at least 12 months to January 11, 2027). • The Transition planning process is a yearly process that is currently being upgraded to take into account the gap between the ECB Guide and the EBA Guidelines. In addition, for the most significant difference with the ECB Guide (result of the Climate Resilience Analysis), a consultation is still ongoing. Therefore, an additional year is needed to provide the first Prudential Transition Plan. • Challenges in defining and establishing a local transition plan for subsidiaries and affiliates of Companies inside and outside the European Union, which are already considered under the Parent entity Transition plan. • Challenges in defining and establishing a transition plan for companies with subsidiaries inside and outside the European Union, given the international context and the varying regulatory speeds. (Different approaches/speeds across jurisdictions and beyond European	ESG Scenario Analysis) • Institutions that are part of a group (which under Article 76 CRD is required to have a transition plan on a consolidated basis) should be exempted from the requirement to adopt a plan on an individual or sub-consolidated basis. Should that be not possible, we would ask for
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			Union and Split between EU and non-EU trajectories + cascading of the Transition Plans in subsidiaries)	a delay of transition plans for EU and non-EU subsidiaries.
OTHER				
Chapter 4 and 5.7: Strategic planning process and risk appetite	47, 47a, 47b, 47c, 50, 51, 52		Consideration of the strategic planning process, including the Risk Appetite Statement, requires methodological preparation regarding the requirements of Chapter 4 and the metrics of Chapter 5.7.	Phase 2
Monitoring of ESG Risk Profitability	47b and subsequently 14b, 28, 101, 104, 109a.ii.) 101 and 104	Monitoring /forecasting of ESG risks impact on profitability (ST, MT and LT), consistency between ESG targets and revenues	Unlike the ECB Guide on C&E risk which was primarily focused on the understanding and management of the impact of C&E risks at the level of risk of the institutions (cost of risk), the EBA Guidelines focus on the understanding and management of the profitability at risk. In order to do that, the revenue and the cost of risk should be collected and forecasted together at the right level of granularity for the analysis of the impact of ESG factors on the various risks, which may require complex IT development across multiple IT chains.	Phase 2

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Consideration of the impacts of nature and biodiversity risks in credit risk	32c, 36, 36a, 81o		• The evaluation of nature-related risks is still in its infancy. Para. 20 of the Guidelines requires an "understanding" of these risks. However, Para.36 goes a step further by including the need to develop tools to measure financial impacts. Meeting this requirement will involve efforts in terms of capabilities, expertise, and resources, as well as improvements in methodologies and data. Also see 4.2.20 • Portfolio impact (partially) assessed through top-down analyses (extensions for site-level assessment initiated) • Inclusion in existing sustainability metrics and process integration to be considered subsequently, since it will involve significant efforts in terms of methodological advancement and alignment with uses of sustainability metrics	Phase 3

Credit process / Risk models, i.e., deeper integration of ESG considerations in credit processes and risk models (incl. regarding pricing, limitations, and rating)	31, 46a i), 46b, 46c, 46d, 46e, 69, 75		• Requirements already partially fulfilled (e.g. loan application, pricing, integration into collateral valuation) • Methodological extensions/ adjustments are targeted for 2025, but will involve significant efforts in terms of capabilities, expertise, and alignment between different stakeholder groups • Lack of historical data	Phase 3
Monitoring and KRIs	53, 79, 80, 81b, 81c, 81e, 81e i.), 81e ii.), 81i, 81j, 81l, 81o, 83	Expansion of existing monitoring and escalation processes, as well as the development and design of relevant ESG metrics/KRIs	• Requirements regarding monitoring process (e.g. escalation management), corresponding reporting instruments and relevant KRIs (e.g. financed GHG emissions) partially fulfilled • Methodological extensions/ adjustments to meet the further KRIs, require strong alignment/ coordination between existing sustainability use cases (e.g. to clarify responsibility and utilization for KRIs) as well as efforts in	Phase 3

			terms of capabilities, expertise, and resources •	
Climate Alignment Risk Perspective	37, 38, 39, 40, 41, 41a, 41b, 48a	Translation of climate alignment data or similar portfolio alignment data into a risk perspective and possible consideration of CO2/climate alignment for (credit) risk management	• Requirements regarding conventional carbon accounting and climate alignment partially fulfilled (see 4.2. 37-38,42) • Peers reveal rudimentary considerations for deriving climate-related transition risks based on alignment metrics • Transferring alignment to risk perspective requires significant efforts in terms of capabilities, and alignment between stakeholders (e.g. users of sustainability metrics) and is to be considered in light of the ambition level discussion (e.g. group wide climate steering concept) • Therefore: Alignment on methodology development, but iterative implementation in upcoming years	Phase 3

Sections that require implementation of the EBA Guideline on ESG scenario analysis.	15b ii., 42, 48b, 63, 74c, 81i, 81k, 94-98, 109a iii.		To be postponed due to the not yet published EBA guidelines on ESG scenario analyses. We propose an implementation period of at least 1 year after the publication of those guidelines.	Delay to Phase 2 or Phase 3 (depending on publication of EBA Guideline on ESG scenario analysis)
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About EBF

The European Banking Federation is the voice of the European banking sector, bringing together national banking associations from across Europe. The federation is committed to a thriving European economy that is underpinned by a stable, secure, and inclusive financial ecosystem, and to a flourishing society where financing is available to fund the dreams of citizens, businesses and innovators everywhere.

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