I4CE – Special issues

I4CE's answer to EBA's consultation on draft Guidelines on the management of ESG risks

The Institute for Climate Economics (**I4CE**) strongly supports EBA's guidelines and welcomes this initiative. The approach to integrate ESG risks and transition planning within pillar 2 is critical for the financial stability and the safety and soundness of the banks. **I4CE** welcomes the work that has been done and has been producing expertise since a long time on how to integrate climate and transition issues within pillar 2 regulation.

I4CE recommends strengthening the guidelines on transition plans to ensure a comprehensive definition. The EBA should opt for a broader understanding of the CRD-based plans to recognize better the need to mobilize banks for achieving climate neutrality in 2050; this way the prudential transition plans would be consistent with the CSRD[1].

Transition finance is a core necessity from a general prudential perspective. The ECB and ESRB clarified that transition finance is necessary to mitigate the potentially uncontrollable climate impacts that pose the most serious threats to financial stability.[2] It is also true that transition finance raises risk taking concerns per se at the level of individual banks, and that this needs to be monitored. However, it is also necessary to ensure at least that individually the bank is not slowing down the transition only due to a lack of ambition.

There are many ways by which a bank's climate risk management approaches might discourage it from participating in transition finance. **I4CE** acknowledges that the overall text of the present EBA guidelines is making legitimate efforts to leverage the capacity of the banks' risk management approach to finance the transition. For example, it emphasizes the strategic risk arising from misalignment, the need to look at the short to the long term, the possibility for banks to engage with counterparties on their transition capacity. However, there could still be possibilities that the banks counteract the need for transition finance through their risk management approach (e.g. discouraging legal ambitions that reduce the short-term profitability of climate-harmful activities).

Hence it is necessary for the EBA to clarify in its interpretation of the CRD that the banks are expected to develop a strategic perspective on capturing and supporting the opportunities that will arise in the transition, consistently with requirements from EU legal frameworks, but also in order to mitigate the long-term risks arising from a lack of climate action. In this context, the banks are expected to develop risk management strategies and plans that help foster the transition, making the best use of their own risk-taking capacity, and they are expected to avoid the risk management strategies that are counterproductive to this end. This would be consistent with CRD's recital (31).

Question 1: Do you have comments on the EBA's understanding of the plans required by Article 76(2) of the CRD, including the definition provided in paragraph 17 and the articulation of these plans with other EU requirements in particular under CSRD and the draft CSDDD?

The EBA should opt for a broader understanding of the CRD-based plans to recognize better the need to mobilize banks for achieving climate neutrality in 2050; this way the prudential transition plans would be consistent with the CSRD[3].

[1] I4CE (2024) "Prudential transition plans: what's next after the adoption of the Capital Requirements Directive?" https://www.i4ce.org/en/publication/prudential-transition-plans-whats-next-after-adoption-capital-requirements-directive-climate/

[2] I4CE (2024) "Connecting the dots between climate risk management and transition finance." https://www.i4ce.org/en/publication/connecting-dots-between-climate-risk-management-transition-finance/

[3] I4CE (2024) "Prudential transition plans: what's next after the adoption of the Capital Requirements Directive?" https://www.i4ce.org/en/publication/prudential-transition-plans-whats-next-after-adoption-capital-requirements-directive-climate/

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Question 2: Do you have comments on the proportionality approach taken by the EBA for these guidelines?

I4CE supports EBA's interpretation of the proportionality principle set out in the CRD. All the banks should perform a materiality assessment of the risks and then adopt a proportionate approach consistently with the conclusions of the assessment.

As the materiality assessment is central in this interpretation, it is crucial that the EBA provides a relevant framing of the materiality assessment as **I4CE** comments in its answer to Question 4.

Question 3: Do you have comments on the approach taken by the EBA regarding the consideration of, respectively, climate, environmental, and social and governance risks? Based on your experience, do you see a need for further guidance on how to handle interactions between various types of risks (e.g. climate versus biodiversity, or E versus S and/or G) from a risk management perspective? If yes, please elaborate and provide suggestions.

As an answer to the first question focusing on EBA's approach regarding climate risks, **I4CE** recommends clarifying paragraph 26 of section 3.5 with climate-relevant precisions, as explained below. As it stands, paragraph 26 explains that "[…] the economic and financial activities of counterparties or invested assets can have a negative impact on environmental and social factors, which could in turn translate into financial impact on the institution".

[4] I4CE (2024) "Connecting the dots between climate risk management and transition finance" https://www.i4ce.org/en/publication/connecting-dots-between-climate-risk-management-transition-finance/

This sentence should be complemented by "For example the impact of counterparties in terms of raising GHG emissions can translate into financial impact on the institution through a range of risk categories that can include importantly strategic risks, and potentially reputation risks". Indeed, such risks are key to highlight that GHG emissions in the value chain can lead to financial impacts; this needs to be explicit where possible in the guidelines.

As an answer to the second question, to help avoid underestimation of the risks, **I4CE** recommends that the banks further explore interactions between diverse types of risks as this could highlight risk compounding effects as illustrated in EEA's EU Climate Risk Assessment[5]. However, it is also key that the banks base their decisions on disaggregated metrics per type of risk with relevant supporting information[6]. Otherwise, aggregate climate risk scores or ESG risk scores can be misleading as, for example, they might summarize risks of various magnitudes and that are not necessarily comparable with each other.

Question 4: Do you have comments on the materiality assessment to be performed by institutions?

I4CE strongly supports the effort of the EBA to frame clearly the ESG risk materiality assessment. As explained by **I4CE** in its research for example on transition risks, the materiality assessment is essential to make sure that the banks identify the relevant risks they need to manage and at the same time this step is subject to a range of key analytical choices. Hence the need to provide an explicit framing of these choices.

It is key to maintain the elements in the proposed guideline, for example on frequence of the assessment, institution-specificity of the assessment, the explicit horizons for short mid and long term, the minimum requirements to have quantitative and qualitative data, the sector and geographic approach, the exploration of all types of drivers, the range of scenarios.

Several explicit requirements also need to be introduced to ensure the relevance of the banks' materiality assessment, as proposed in **I4CE**'s work: [7] [8]

- Paragraph 14 c) should clarify further that the banks should first explore the key propagation channels of climate impacts and transition impacts for the bank, per sector and country of activity of their counterparties, based on a range of information (including forward-looking information such as a range of scenarios). As explained in **I4CE**'s research, this first step provides the bank with a broad understanding of its exposure to climate issues now and in the future, as a basis to identify the material risks to be further assessed. Hence, the richness of this exploration conditions the quality of the whole risk analysis and it helps the bank to build its capacity to manage the risk.

[5] EEA (2024) "European Climate Risk Assessment – Chapter 17 Stability of financial markets and public finances" https://www.eea.europa.eu/publications/european-climate-risk-assessment
[6] I4CE and CICERO (2021) "Addressing challenges of physical climate risk analysis in financial institutions." https://www.i4ce.org/en/publication/addressing-challenges-of-physical-climate-risk-analysis-in-financial-institutions/
[7] I4CE (2022) "Scenario analysis of transition risk in finance – Towards strategic integration of deep uncertainty." https://www.i4ce.org/en/publication/scenario-analysis-of-transition-risk-in-finance-towards-strategic-integration-of-deep-uncertainty/
[8] I4CE (2021) "Taking climate-related disclosure to the next level – minimum requirements for financial institutions." https://www.i4ce.org/en/publication/taking-climate-related-disclosure-to-the-next-level-minimum-requirements-for-financial-institutions/

When doing this exploration, the banks should also seek to identify transition finance opportunities per sector and according to transition needs per country; these could help ensure the financial sustainability of the bank's business strategy.

- Paragraph 14 b) should clarify that the activities can be considered as "most significant" not only from the perspective of their relative size in the portfolio but most importantly from the perspective of the potential of these activities to generate substantial impacts for instance in terms of reputation.
- A sectoral and geographic classification of portfolio exposures should be required as part of the materiality assessment of climate-related risks. Reversely, the traditional classification per asset class should be discouraged, as the portfolio vulnerabilities to climate and transition risks depend on the sectors and geographies.
- As part of paragraph 14 c), the banks should also be asked to explain how they consider several trajectories (severity and timing of impacts) of transition risk drivers, considering the potential for changes in these drivers in the short-term. They should also explain how they consider the cumulation and compounding of several transition risk drivers and acute and chronic physical risks, from the short to the long term.
- Paragraph 18 should be completed to clarify that the banks should document the criteria they use to select material risks and justify how these criteria are weighted relatively to each other. They should also document how they address the data gaps. Indeed, it is important to know whether the lack of data on a risk leads the bank to consider that the risk is not material. This could be a source of underestimation of the risk.

In addition, from the perspective of transition risk management, there is concern with paragraph 15 making a reference to the likelihood of the materialization of the risk. Indeed, it is not possible to assign transition scenarios with an objective probability of likelihood due to the deep uncertainty on the shape of the low-carbon transition and its impacts and the use of such probabilities in decision-making raises concern, as explained in **I4CE**'s previous research[9]. For example, there is a possibility that low probabilities are assigned to the transition scenarios that raise the highest risk concerns for the bank. There is also a possibility that the bank integrates this low probability in its risk management process in a way that minimizes the importance of this transition scenario.

Therefore, as part of paragraph 15, the banks should be required to explain how they consider addressing the difficulty assigning objectively the transition scenarios with a likelihood. The EBA should also consider exploring the literature on decision-making criteria under deep uncertainty as introduced in **I4CE**'s research[10], and integrate this perspective in further guidance (for example on scenario analysis of climate-related risks and its use for decision-making).

[9] I4CE (2022) "Scenario analysis of transition risk in finance – Towards strategic integration of deep uncertainty." https://www.i4ce.org/en/publication/scenario-analysis-of-transition-risk-in-finance-towards-strategic-integration-of-deep-uncertainty/

[10] See section 6.2A of I4CE (2022) "Scenario analysis of transition risk in finance – Towards strategic integration of deep uncertainty". See also I4CE (2019) "Towards an alternative approach in finance to climate risks: taking uncertainties fully into account." https://www.i4ce.org/en/publication/for-another-approach-to-climate-risk-in-finance-taking-uncertainties-fully-into-account/

Question 5: Do you agree with the specification of a minimum set of exposures to be considered as materially exposed to environmental transition risk as per paragraphs 16 and 17, and with the reference to the EU taxonomy as a proxy for supporting justification of non-materiality? Do you think the guidelines should provide similar requirements for the materiality assessment of physical risks, social risks and governance risks? If yes, please elaborate and provide suggestions.

Answering the first question on the materiality assessment of transition risks: yes, as a principle the mandatory materiality of exposures to specific sectors should be maintained. It is also necessary to maintain the requirement for the bank to explain when it considers that these sectoral exposures are non-material (including an explanation on the analytical steps that were taken to reach this conclusion, the criteria that it uses for the materiality assessment and the relative weight of these criteria).

Answering the second question, with a focus on the materiality assessment of physical climate risks: yes, potentially some sectors and geographies could be considered as materially exposed to specific or multiple types of climate hazards systematically. Public actors are making efforts to identify the key risk exposures in Europe; as illustrated by the EEA's European Climate Risk Assessment report[11]. Coordination is needed among public actors (including the EBA, the EEA, etc.) to clarify whether this is enough information as a basis to update the EBA guidelines with mandatory material risk exposures. A possible way to integrate this as part of the present guidelines is to require that the banks update their list of mandatory material exposures on physical risks continuously according to public recommendations.

Question 6: Do you have comments on the data processes that institutions should have in place with regard to ESG risks?

Based on previous research on climate-related risks, **I4CE** considers that it is important to maintain EBA's requirements in section 4.2.1 on how the banks should address the counterparty-level data challenge. In particular:

- **I4CE** agrees with the need for banks to prioritize counterparty-level data that arises from the CSRD and from other public bodies (paragraph 21). This helps ensure the quality and comparability of the data used. Among interesting initiatives of public bodies, the Banque de France has launched a pilot test to integrate climate issues in the quotation of companies, with the intention to generalize it to corporates and intermediate size companies and SMEs.
- **I4CE** agrees that the banks should be active in leveraging further data through their internal processes for example by engaging with their counterparties to capture the relevant ESG-related information (paragraph 22). This contributes to mobilize the banks in understanding more precisely the transition and adaptation issues of their counterparties and the financial conditions that would enable them to adapt and make their transition.
- **I4CE** agrees with the need to justify what other sources of information would be relevant (paragraph 25).

[11] EEA (2024) "European Climate Risk Assessment." https://www.eea.europa.eu/publications/european-climate-risk-assessment

Such a process is consistent for example with the findings of the ClimINVEST project on physical climate risk assessment and management[12].

I4CE also supports the requirement of a mix of data to assess current and forward-looking ESG risk profile of counterparties, including forward-looking data such as corporate transition plans and a range of indicators such as forecasted GHG emissions scope 1, 2 and 3 (paragraph 23).

I4CE warns that the proposed GHG emission intensity metrics per euros can be misleading (paragraph 23 a. ii.). Typically, the GHG intensity can vary depending on the price of the product or service with no change in the carbon-intensity of the value chain process. Hence the guidelines should specify that banks should use other metrics from the list in paragraph 23 a. ii. in priority and that the banks could use GHG emission intensity metrics per euro provided they have information about the impact of price fluctuations on these metrics.

Question 7: Do you have comments on the measurement and assessment principles?

On paragraph 28: please see the end of our answer to Question 4 where we discuss that the reference to the likelihood of the materialization of the risk raises concern from the perspective of transition risk assessment and management.

Question 8: Do you have comments on the exposure-based methodology?

Echoing our answer to Question 4, **I4CE** supports EBA's proposal in paragraph 31 of looking at physical risk vulnerability taking into account at least the geographical location and exposures, and looking at transition risk vulnerability taking into account at least the sector of activity of the counterparty. Consistently with our answer to Question 6, **I4CE** agrees with the process to address the counterparty-level data challenge as set in paragraph 32.

In line with the end of our answer to Question 4, **I4CE** invites the EBA to consider the concern of estimating the likelihood of critical disruptions (mentioned in paragraph 31. c).

Question 9: Do you have comments on the portfolio alignment methodologies, including the reference to the IEA net zero scenario? Should the guidelines provide further details on the specific scenarios and/or climate portfolio alignment methodologies that institutions should use? If yes, please elaborate and provide suggestions.

It is important to maintain the requirement for banks to analyze the alignment gap of their activities compared with the needs of the transition. It should be clarified that alignment gaps can be leading directly to financial risks for the bank (e.g. a reputational risk for the bank if it finances a company that is reluctant to make a credible transition plan).

However, as highlighted in previous research on the tools developed by service providers, the approaches usually labelled as "portfolio alignment methodologies" embark a range of key assumptions that complexify the interpretation of the results and their use by the banks[13].

[12] I4CE and CICERO (2021) "Addressing challenges of physical climate risk analysis in financial institutions." https://www.i4ce.org/en/publication/addressing-challenges-of-physical-climate-risk-analysis-in-financial-institutions/

[13] Institut Louis Bachelier et al. (2020) "The Alignment Cookbook - A Technical Review of Methodologies Assessing a Portfolio's Alignment with Low-carbon Trajectories or Temperature Goal." https://www.institutlouisbachelier.org/wp-

Should the EBA maintain its requirements for portfolio level analysis, then the most important point to clarify from paragraph 36 is that the “portfolio” analysis needs to be based on a “sectoral portfolio” analysis, i.e. based on a disaggregation of the banks’ portfolios according to real economy sectors of the underlying assets. This sectoral basis is indeed the only relevant one for the bank to analyze its vulnerabilities to the low-carbon transition and to manage the risks through its transition plans. The EBA guidelines should also require the banks to highlight how they use in priority the counterparty-level data to perform this portfolio analysis. They should also require the banks to explain when an aligned portfolio includes counterparties with high misalignment and that could lead to high-risk exposures for the bank, for example in terms of strategic or reputation risk of the bank.

As a complement to the end of paragraph 36, the bank should be required to explain how it manages to identify representative sample of exposures in their portfolios, as this determines the quality of the generalization of the results.

Question 10: Do you have comments on the ESG risks management principles?

I4CE supports these ESG risk management principles, in particular paragraph 42 on the need to consider a range of risk management and mitigation tools, including engagement with counterparties on their transition plans to improve their ESG risk profile (paragraph 42 a).

However, paragraph 42 a) iv. should also mention explicitly here the use of an escalation process as part of the engagement process, including the potential recourse by the bank to coalitions with other financial actors where relevant. This escalation process is key for the bank to make the most of its engagement with the counterparty in a context of risk management.

In addition, this could be clarified in paragraph 42 that the bank may also consider, among its risk management tools, the possibility of bearing the risk of accompanying the counterparty in its transition process, consistently with the banks’ decisions on its risk appetite.

Question 11: Do you have comments on section 5.2 – consideration of ESG risks in strategies and business models?

NA

Question 12: Do you have comments on section 5.3 – consideration of ESG risks in risk appetite?

I4CE agrees with the importance of clearly defining the risk appetite to specific ESG risks, and the need to ensure its operationalization. It is indeed relevant to integrate indicators that account for the exposure of the bank to economic activities that contribute to climate change, as well as indicators that account for the exposure of the bank to transition and green activities as well as engagement processes. The metrics should help clarify to what extent the bank is using its risk-taking capacity for financing the transition and green activities or financing climate harmful activities.

(NB: Paragraph 48 refers to an escalation process set out in section 5.8 but it looks like it is set out instead in section 6.5 paragraph 103.)

content/uploads/2021/03/the-alignment-cookbook-a-technical-review-of-methodologies-assessing-a-portfolios-alignment-with-low-carbon-trajectories-or-temperature-goal.pdf

Question 13: Do you have comments on section 5.4 – consideration of ESG risks in internal culture, capabilities and controls?

I4CE supports these EBA's recommendations on the governance of ESG risks, including training, the specification of roles and 'tone from the top'.[14] [15]

The recommendation for adequate training of the banks' management body and staff on ESG risks in paragraph 49 should be clarified. Indeed, the expertise on climate and other ESG risks for the banking sector is nascent and evolving, with a range of available approaches. Therefore, the EBA – jointly with other relevant authorities – should provide the banks with regularly updated guidance. The guidance would seek to clarify the types of training, knowledge, experience and expected skills on ESG and climate-related risks that are appropriate for different staff categories, and that are necessary to ensure collective suitability of the bank's management bodies.

The remuneration schemes is another key aspect to ensure integration of ESG factors and risks in the bank's internal organization14[14] [15]. Remuneration schemes inform on the maturity and seriousness of the bank's commitment on climate issues. The EBA should recommend that the banks adapt their remuneration schemes to incentivize the staff in implementing the bank's prudential transition plan consistently with the bank's own plan to align its activities with the needs of the low-carbon transition that is delineated in EU legal frameworks.

Question 14: Do you have comments on section 5.5 – consideration of ESG risks in ICAAP and ILAAP?

NA

Question 15: Do you have comments on section 5.6 – consideration of ESG risks in credit risk policies and procedures?

As highlighted in **I4CE**'s research, there is a need for banks to clarify in their procedures how they address counterparties or projects that persistently refuse or fail to implement a credible transition plan.[16] Hence, there is a need to add in this section of the guidelines that banks' credit policy on large corporate counterparties should include a conditionality of the credit to the counterparty's credible transition plan. In addition, such a policy should include an escalation process (e.g. the revision of the credit terms is conditioned to the provision of a credible transition plan by the counterparty and if the company remains reluctant to provide such a plan after two years, then the bank terminates the client relationship). This would be compatible with paragraph 103 in section 6.5.

[14] I4CE (2022) "Implementing prudential transition plans for banks: what are the expected impacts?" https://www.i4ce.org/en/publication/implementing-prudential-transition-plans-banks-what-are-expexted-impacts-climate/

[15] I4CE (2024) "Prudential transition plans: what's next after the adoption of the Capital Requirements Directive?" https://www.i4ce.org/en/publication/prudential-transition-plans-whats-next-after-adoption-capital-requirements-directive-climate/

[16] I4CE (2022) "Implementing prudential transition plans for banks: what are the expected impacts?" https://www.i4ce.org/en/publication/implementing-prudential-transition-plans-banks-what-are-expexted-impacts-climate/

Question 16: Do you have comments on section 5.7 – consideration of ESG risks in policies and procedures for market, liquidity and funding, operational, reputational and concentration risks?

I4CE generally agrees with section 5.7 and supports the requirements on concentration risks.

Question 17: Do you have comments on section 5.8 – monitoring of ESG risks?

I4CE supports EBA's proposal of using a range of metrics for the purpose of ESG risks monitoring.

It is particularly relevant to include indicators that help to ensure that the bank is making connections between ESG risk management and the impacts of the banks typically on climate change mitigation and adaptation. For example, the monitoring of progress against all institution's targets set in relation to ESG risks and ESG objectives (paragraph 72 j) is relevant; as well as indicators in paragraph 72 f); etc.

The monitoring of engagement with counterparties, typically on their transition plans, and the results of this engagement (paragraph 72 e) are also key towards better explaining how the bank is deciding to hold the risk overtime and this should be maintained in the guidelines.

However, it should be clarified in paragraph 72 c) that the risks need to be monitored based on sectoral exposures, to help make connections with sectoral policies used to manage ESG risks.

It should be clarified that the monitoring of quantitative metrics - such as in 72 d) - needs to be done also with qualitative information to interpret the (potential upwards) evolution of these metrics overtime against the banks' strategy, as a complement to what is already stated in that sense as part of paragraph 94 a).

Additional indicators are needed for the bank to monitor the counterparties in portfolios that need to do their transition, and to monitor their progress in doing their transition. This could be based on methodologies including for example ADEME's "Act For Finance". This would complement the indicators on engagement and results in paragraph 72 e) as well as the ratios in paragraph 72 f).

It should be clarified in paragraph 72 a) that historical losses and forward-looking estimates on ESG risks should be monitored with specific indicator per type of ESG risk. While transition risks appear more specifically in the other items of paragraph 72, there is a need to monitor also the exposure to physical climate risks and the actions undertaken by the bank to manage these risks. This includes the engagement with counterparties to understand granularly their adaptive capacity and needs regarding relevant physical climate risks.

Question 18: Do you have comments on the key principles set by the guidelines for plans in accordance with Article 76(2) of the CRD?

I4CE supports EBA's key principles for CRD-based prudential transition plans. In particular on paragraph 76, **I4CE**'s research has supported the need to take account of the long-term while setting interim targets that help demonstrate the credibility of the bank's efforts[17]. However, there is a need to precise paragraph 77.

[17] I4CE (2022) "Include mandatory banking transition plans within Pillar 2."
https://www.i4ce.org/en/publication/include-mandatory-banking-transition-plans-within-pillar-2/

Indeed, I4CE's research highlighted that transition finance can be a risky endeavor in the short-term and with lower return. This can be at the benefit of the bank's strategy in the long-term, as for example the bank may then benefit from a well-established relationship with the clients it accompanied during their transition. Hence, paragraph 77 should require the bank to explain how it balances the short-term risk and reward with the long-term risk and reward in its plan in a way that does not jeopardize the long-term risk and reward for the bank.

Paragraph 78 needs to be amended on the articulation between the transition plans of the bank as it is a very crucial part of the guidelines. For the sake of clarity, it is necessary to explain in the last sentence that the "plans" disclosed pursuant to the CSRD are "non-prudential plans" to make sure that the banks are not confused with the wording. The "consistency" of prudential plans with non-prudential plans should also be clarified and reinforced. To do so, it is necessary to add that "prudential transition plans should avoid limiting the environmental ambition of the bank's non-prudential plans as much as can be. In addition, the prudential transition plans should by no mean allow for risk management actions that are counterproductive to the low-carbon transition." Such a precision would help minimize the potential counterproductive effects of the bank's risk management with regards transition needs in the real economy, some of which were illustrated in **I4CE**'s research.[18]

Question 19: Do you have comments on section 6.2 – governance of plans required by the CRD?

I4CE strongly supports all the requirements of section 6.2 on the governance of prudential transition plans, together with the requirements on internal culture, capabilities and controls of section 5.4 (considering our recommendations of adjustments in our answer to Question 13 on section 5.4). **I4CE**'s work on prudential transition plans is aligned with these requirements.[19] [20]

However, section 6.2 does not clearly state who is responsible for reviewing and assessing the consistency of the ESG risk framework – extended to the prudential transition plan – with the strategy of the bank to contribute positively in ESG factors – extended to non-prudential transition plans. This is nonetheless crucial. The EBA could consider whether the IAF or other teams of the bank could endorse this role, provided these teams receive appropriate training to do so.

Question 20: Do you have comments on the metrics and targets to be used by institutions as part of the plans required by the CRD? Do you have suggestions for other alternative or additional metrics?

I4CE strongly supports the general provisions in section 6.3 (i). In particular, paragraph 92 echoes **I4CE**'s work.[21] Indeed, taken together, these interim and longer-term targets help demonstrate the robustness and credibility of the bank's strategy.

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[18] 4CE (2024) "Connecting the dots between climate risk management and transition finance."
https://www.i4ce.org/en/publication/connecting-dots-between-climate-risk-management-transition-finance/

[19] I4CE (2022) "Implementing prudential transition plans for banks: what are the expected impacts?"
https://www.i4ce.org/en/publication/implementing-prudential-transition-plans-banks-what-are-expected-impacts-climate/

[20] I4CE (2024) "Prudential transition plans: what's next after the adoption of the Capital Requirements Directive?"
https://www.i4ce.org/en/publication/prudential-transition-plans-whats-next-after-adoption-capital-requirements-directive-climate/

[21] I4CE (2022) "Include mandatory banking transition plans within Pillar 2."
https://www.i4ce.org/en/publication/include-mandatory-banking-transition-plans-within-pillar-2/

However, paragraph 94 should be complemented with indicators on sustainable exposures and carbon-intensive exposures mentioned in Section 5.8 paragraph 72 f).

Consistently with our answer to Question 6, **I4CE** warns that the proposed GHG emission intensity metrics per euros can be misleading (paragraph 23 a. ii.). Typically, the GHG intensity can vary depending on the price of the product or service with no change in the carbon-intensity of the value chain process. The end of paragraph 94 a) does ask for criteria supporting the explanation of portfolio emissions reduction or temporary increases. However, this should be stated more clearly that banks should use other metrics than GHG emission intensity per euro in priority, and that the banks could use GHG emission intensity metrics per euro provided they have information about the impact of price fluctuations on these metrics.

Paragraph 94 e) should make a more direct connection between the engagement of the bank with counterparties and the counterparties' transition plans. Indeed, this is key for the banks to examine the consistency between its own transition plan and the counterparty's transition plan.[22] To this end, the sentence of paragraph 94 e) should be modified from "[…] e.g. in relation to counterparties' transition plans" to "[…] including in relation to counterparties' transition plans".

Question 21: Do you have comments on the climate and environmental scenarios and pathways that institutions should define and select as part of the plans required by the CRD?

I4CE supports the order of priority on the different types of scenarios as set out in paragraph 97. **I4CE** also supports paragraphs 98, 99 and 100 that are aligned with **I4CE**'s recommendations for the assessment of climate-related risk.[23]

Question 22: Do you have comments on section 6.5 – transition planning?

I4CE strongly supports EBA's approach on all the aspects of transition planning mentioned in section 6.5, including the escalation process described in paragraph 103.

Question 23: Do you think the guidelines have the right level of granularity for the plans required by the CRD? In particular, do you think the guidelines should provide more detailed requirements?

We think that the guidelines reach an appropriate level of granularity overall.

However, as proposed in our answer to Question 13, the guidelines could benefit from further guidance – updated regularly – on the types of training, knowledge, experience and expected skills on ESG and climate-related risks that are appropriate for different staff categories, and that are necessary to ensure collective suitability of the bank's management bodies. This could help the banks train their first line of defense appropriately "to assess the soundness and credibility of their counterparties' transition plans" as required in paragraph 86 of Section 6.2.

[22] I4CE (2024) "Prudential transition plans: what's next after the adoption of the Capital Requirements Directive?" https://www.i4ce.org/en/publication/prudential-transition-plans-whats-next-after-adoption-capital-requirements-directive-climate/
[23] I4CE (2021) "Taking climate-related disclosure to the next level – minimum requirements for financial institutions." https://www.i4ce.org/en/publication/taking-climate-related-disclosure-to-the-next-level-minimum-requirements-for-financial-institutions/

Question 24: Do you think the guidelines should provide a common format for the plans required by the CRD? What structure and tool, e.g. template, outline, or other, should be considered for such common format? What key aspects should be considered to ensure interoperability with other (e.g. CSRD) requirements?

Yes, we think the guidelines should provide a common format for the plans required by the CRD, using an excel template in priority. This would favor the conciseness of information; it would ease the reviewing process and it would favor comparability of the data. Such a template should allow the banks to provide not only the quantitative elements but also the qualitative elements (e.g. narrative of the banks to describe the underlying rationale of their plans).

Question 25: Where applicable and if not covered in your previous answers, please describe the main challenges you identify for the implementation of these guidelines, and what changes or clarifications would help you to implement them.

NA

Question 26: Do you have other comments on the draft guidelines?

NA