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Response to EBA's consultation paper: Draft guidelines on the management of ESG risks.

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?

- **CRD-based and CSDDD-based transition plans should share common foundations and be consistent in terms of criteria, methodologies, assumptions and targets.**

Finance Watch agrees with the differences drawn between prudential transition plans as referred in Article 76(2) of the CRD and the transition plans as referred in CSDDD. However, **Finance Watch also highlights that, while the scopes are different, both transition plans should not be considered as distinct exercises** as it would undermine the comparability of the transition plans and duplicate the efforts on internal and external reporting for financial institutions.

While we agree that CRD-based plans should not set out an objective of fully aligning with Member States or Union sustainability objectives or one specific transition trajectory, they should share many similarities with the CSDDD-based plans. We therefore **welcome the requirements set in point 11 to keep transition plans consistent in terms of criteria, methodologies, assumptions and targets**.

Both transition plans are highly interconnected: a **business model that would not be compatible with the Paris Agreement will substantially increase its level of climate transition risk for the institution**, which implies that CSDDD-based transition plans should feed the development of prudential transition plans. At the systemic level, misaligned business models will also accelerate climate change and accentuate its impact on financial institutions, as coined by Finance Watch in 2020 in its report "Breaking the climate-finance doom loop" (https://www.finance-watch.org/wp-content/uploads/2020/06/Breaking-the-climate-finance-doom-loop_Finance-Watch-report.pdf).

The segmentation of exposures (e.g. the geography and sectoral exposures) should also be aligned to facilitate the operationalization plan and clarify the underlying expectations.

- **CRD-based and CSDDD-based transition plans should still respond to distinct purposes and be designed accordingly**

On top of a common structure, both transition plans should be completed with additional clarifications as they serve several complementary purposes. On the one hand, **CSDDD-based transition plans are not meant to include a full set of measures to protect financial institutions from physical and transition risks** and the residual ESG risks should still be identified, monitored and managed. On the other hand, **CRD-based transition plans do not guarantee that banks will meet the mandatory transition targets** in relation to the Paris Agreement.

In their design, **CSRD/CSDDD-based transition plans should be seen as a prerequisite for the design of CRD-transition plans.** While we understand that not all financial institutions subject to CRD are in scope of CSDDD transition plans, they still need to understand how their business model, their portfolio and their exposures should look to be considered as consistent with the objectives of the Paris Agreement. From there, financial institutions that are not falling in the scope of CSDDD should decide – based on their risk appetite – whether they will deviate (and to what extent) from such a plan. Designing CSDDD-based transition plans should therefore be the starting point to manage ESG risks, and develop and implement prudential transition plans, which reinforces the importance of clear rules for credible and comparable transition plans, both from a financial materiality and impact materiality perspectives.

Prudential transition plans should also consider exposures distinctively. While CSDDD-based transition plans require assessing the compatibility of a business model with the EU climate objectives overall, prudential transition plans should require assessing ESG risks resulting from such misalignment both at the level of the counterparty and at an aggregated level, as reflected in points 30 to 39.

It is also important to clarify which elements will be fully shared between the CRD and CSRD, in particular in terms of disclosure, as the ESRS already include certain risk management-related elements.

- **The time horizon for the management of ESG risks should be extended**

Finally, Finance Watch also welcomes the minimum time horizon for strategic planning and the management of ESG risks of at least 10 years. However, a 10-year time horizon remains insufficient. On the one hand, a 2050 time horizon is necessary to take into account the transition risk perspective and the necessary transformations that need to happen to meet the objectives of the Paris Agreement. On the other hand, extreme weather events are already accelerating, will unpredictably happen and, in particular with the crossing of tipping points, could reach catastrophic levels between 2060 and 2080. Decisions taken as a result of the current exercise should help to determine the level of losses that occur in the later period and the time horizon for the management of ESG risks should therefore be extended to several decades.

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

Finance Watch **supports that all institutions should implement ESG risk management approaches** that reflect the materiality of ESG risks associated with their business model and scope of activities.

Finance Watch also agrees that small and non-complex institutions should be allowed to rely on less sophisticated arrangements. However, **Finance Watch is concerned that more flexibility for financial institutions with a higher risk appetite would go against the principle that financial institutions should understand the risks that they are facing.** Risk management is indeed not only about risk mitigation, but also risk identification and assessment. A multiple level proportionality approach (depending on the size and the risk profile of the institution) would bring substantial confusion for the application of the guidelines. Moreover, the guidelines are already principle-based (as well as the existing CRD framework) and should allow an application in a proportionate manner, including for institutions that do not qualify as SNCIs.

The cost of implementing the proposed measure as such should also not be a consideration, but rather the materiality of risk for the ability of the institutions to bear such risk. For this, a holistic consideration of ESG risk drivers is needed. This is in line with the principles of the risk-based prudential regulation and, in particular, Pillar 2 framework as banks' internal assessment, which should limit the possible considerations of risk materiality.

However, **point 22 of the document supposes that the materiality assessment of ESG risks will be adequately conducted**. Currently, there is lack of clarity on the performance of materiality assessment for ESG risks and the robustness of the assessment varies between the institutions. Section 4.1. provides details on the expected frequency, considerations, time horizons and factors, but these remain mostly principle based and are not a sufficient safeguard to rely on the quality and the comparability of the exercise. **Additional guidelines and clearer expectations on the materiality assessment, with references to qualitative and quantitative thresholds, will be key** to ensure that institutions develop their risk management approach on an equivalent basis.

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.

It is important to better clarify the approach to the impact consideration within the financial materiality. As mentioned in our responses above, assessment of impact materiality - i.e. a counterparty's misalignment with the sustainability objectives - is an indicator of the possible transition risk and a departing point in the assessment of financial materiality.
Moreover, at the systemic level, material environmental impacts, if not mitigated, will be an indicator of growing systemic risk due to climate change, environmental degradation etc.

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

As noted in the answer to question 2, the expectations for the execution of the materiality assessment should be better specified completed with minimum safeguards to improve the reliability of the exercise. The materiality assessment is a key exercise as an inadequate assessment would undermine the adequacy of the risk management approach as a whole.

Providing guidance to the banks on materiality assessment is paramount to ensure consistent treatment of risks, in particular given the forward-looking character of ESG risks. The conclusions of the EBA monitoring exercise on the IFRS9 implementation (report EBA/Rep/2023/36) serve as an evidence for the need of such guidance, as the EBA has identified largely divergent practices of banks' when handling forward-looking information for risk assessments. The problem is likely to be even more pronounced in case of ESG risks, where challenges with data, time horizons and banks' own expertise persist.

The justification of the materiality assessment and corresponding decisions with respect to the treatment of ESG risks should also be clearly documented, alongside the clear internal definition of materiality, which is already required in the ICAAP framework for all risks relevant to the institution.

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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.

Finance Watch **welcomes point 16 of section 4 specifying that the exposures towards sectors that highly contribute to climate change should be considered as material** by default. However, Finance Watch expresses concerns about the reference used to identify the relevant sectors. The reference to Section A to H and Section L of **Annex I to Regulation (EC) No 1893/2006 does not seem sufficient to identify exposures that highly contribute to climate change** as this list covers a large number of sectors that, in certain cases, contribute to climate change, and in other cases, respond to the climate change mitigation objective of the Taxonomy Regulation.

Moreover, the **derogation to point 16 proposed in point 17 strongly undermines the assurance that environmentally harming exposures will be considered as material**. On the one hand, the derogation is too general and does not give details on what a valid justification should be. On the other hand, the illustrative justification that exposures to concerned companies showing a high level of taxonomy-alignment may not be considered material seems inadequate. Referring to 'a high level of taxonomy alignment' leaves a lot of space for interpretation in a context where most companies currently report an alignment that does not exceed 20%. It also does not integrate the nuance that a company with 20% of taxonomy alignment may have the remaining 80% of its activities in sectors highly contributing to climate change and therefore be subject to important ESG risks. This would typically be the case for energy companies which may combine activities in renewable energy and the fossil fuel sector. Moreover, the guidelines should not lead to the false impression that taxonomy alignment entails the absence of ESG risks. In that regard, EIOPA rightly noted in point 86 of its consultation paper on the prudential treatment of sustainability risks of 13 December 2023 that "The EU taxonomy on sustainable activities is not considered a feasible approach for the purpose of the analysis as it is not a risk-based taxonomy. In that regard, sustainable activities defined by the EU Taxonomy can also be subject to transition risk".

We **recommend EBA (1) to define the list of sectors highly contributing to climate change at a more granular level of NACE codes, (2) to at least specify that companies with a material proportion (e.g. 5%) of their activities in the fossil fuel sector should always be considered as material for the management of ESG risks and (3) delete the derogation referred to in point 17.**

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

Finance Watch **welcomes EBA's initiative to list in point 23 the information that should at least be gathered when assessing the current and forward-looking ESG risk profile of counterparties**. Points i, ii, iii, iv, v, vi, ix of the list are particularly relevant to assess the ESG risk profile of counterparties. We strongly support the recognition of the counterparties' transition plans as a relevant source of forward-looking information for financial institutions' risk assessments. Once the transition plans in the non-financial sector are streamlined and made credible via the assurance function, such transition plans offer themselves as a credible and comparable source of information, which should contribute to the convergence of views on transition risk among financial institutions.

Although we support the consideration of all the indicators listed by EBA, the energy and water demand/consumption (point v) is an information that needs to be considered together with other factors such as the energy sourcing and the sector of the company. The adherence to voluntary or mandatory climate and environmental reporting (point vii) will also not say much about the actual level of ESG risk exposure of the counterparty.

Yet, Finance Watch proposes adaptations to the following information:

- **GHG emissions should be considered both in absolute and intensity values**. Currently, the EBA gives the flexibility for the institutions to use one or the other metric. GHG intensity, whether based on the enterprise value or the revenue, is not the right metric to measure decarbonisation results. This is a fundamental issue that has been repeatedly raised by Finance Watch, including in its report 'The Problem Lies in the Net' (https://www.finance-watch.org/policy-portal/sustainable-finance/report-the-problem-lies-in-the-net-making-finance-contribute-to-a-net-zero-economy/). The intensity approach, whether promoted or de facto accepted by SBTi and many industry alliances, does not reflect the fact that global warming is fed by actual emissions, not intensity, giving a false impression of progress towards a carbon neutral economy and making targets easier to reach. GHG emission reduction targets should at least be expressed in absolute amounts.
- **The dependency on fossil fuels should be considered both in terms of economic factors and revenue base.** The consideration of the revenue-based dependency should also integrate the investments made in fossil energy, with a distinction between investments in existing infrastructures and the financing of new fossil fuel projects. As coined by Finance Watch in its report "A silver bullet against green swans" (https://www.finance-watch.org/wp-content/uploads/2021/11/A-Silver-Bullet-Against-Green-Swans-capital-requirements-climate-risk.pdf), assets associated with exploration, expansion and exploitation of new fossil fuel reserves will pose a particularly high financial stability risk and will, with near certainty, become stranded and lose 100% of their value. This is supported by the conclusions of the IPCC and IEA that there is no room for new fossil fuel exploration in the net-zero 2050 scenario.

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

We support the use of exposure-based, portfolio-based and scenario-based methodologies, as outlined by the EBA, i.e. as complementary approaches, each of which serves its different purposes. This is in line with the existing risk management framework under the CRD, whereas banks perform risk assessments at the exposure/counterparty level, monitor and manage the risks across portfolios, and also use the scenario analyses to stress risk vulnerabilities and make sure sufficient risk-bearing capacity and plans for management actions are put in place for possible stress conditions.

In particular, we agree that scenario analyses are an important tool to understand vulnerabilities. However, there needs to be **a radical rethinking of the approach to climate scenario modelling**. The scenario analyses conducted to date clearly concluded that the orderly and timely transition is less costly for the economy and the financial sector, whereas disorderly or absent transition represent financial stability risk. However, the results have predicted only benign impacts of climate change or disorderly transition on the financial system, giving a false sense of security to policymakers.

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Such results are in stark contrast with climate science, which predicts major macroeconomic disruptions at the warming levels above 2C. The reason for this paradox lies in the economic models used for climate scenario analyses. These models – known as dynamic stochastic general equilibrium models (DSGE) and integrated assessment models (IAMs) – were developed to deal with traditional financial risks and are not suitable for climate-related risks. **They rely on historical data and make assumptions about economic equilibrium that may no longer apply**, as climate-related impacts will be disruptive, unpredictable and permanent. **Tipping points and feedback mechanisms are not modelled,** whereas they could accelerate losses to levels far above those from recent financial crises. A major modelling flaw is the assumption that economic damages from climate change are a quadratic function of the warming level.

This leads to unrealistic conclusions: In the scenarios used by the NGFS, "an increase in global mean surface temperature by about 3.5°C until the end of the century would reduce global output by 7-14% in 2100". Furthermore, the existing models ignore some of the most severe impacts of climate change. Notably, NGFS's recent estimate of climate losses excluded costs arising from extreme weather, sea-level rise, migration and conflict. If the economic impact of climate change continues to be underestimated, cost-benefit analyses of prudential policies will be distorted. Inaction will reduce the future resilience of the financial system risking a major financial crisis.

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

Finance Watch **welcomes the distinction proposed between the exposure-based identification and measurement of ESG risks, and the portfolio-based and scenario-based ones**. Climate-related financial risks are path-dependent, i.e. the short-term actions of economic agents, including financial institutions, determine the future level of risk (given that transition is a gradual process and delaying the transition increases a risk in the system due to a disorderly and delayed transition). Therefore the objective of transition planning as a risk management tool should be to understand the risks faced by banks and their counterparties due to misalignment with the climate objectives and corresponding pathways.

We see the requirements in point 30 on incorporating ESG risks into institutions' internal risk ratings as scoring problematic under the current framework, as internal rating models are calibrated and validated based on historical data. A clear evolution of the prudential framework is needed to allow for larger weight of forward-looking assessments within risk classification procedures.

We further recommend EBA to clarify in point 31 that, when considering the risk factors and criteria that capture both physical and transition risk drivers, the degree of vulnerability to transition risks should not be minimised under the assumptions that new technical development will be developed e.g. carbon capture projects. The current and forecasted GHG emissions should also be expressed both in absolute and intensity of assets and completed by the level of alignment of the counterparties with the objectives of the Paris Agreement, similarly to the portfolio-based assessment referred in point 35 a) of the document.

The point 31 b) should also explicitly consider the capacity for a sector to transition in order to adequately reflect the level of vulnerability to transition risk of highly emitting sectors such as the fossil fuel industry. Importantly, the degree of vulnerability to transition risk (under b) as well as mitigation opportunities (under e) can be assessed based on the counterparties'/clients' transition plans & progress achieved towards the respective transition targets.

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.

Finance Watch **supports the proposition to consider the gap between the institutions' portfolios and benchmark scenarios consistent with relevant legal climate targets**; and to assess the level of climate related risks. Misalignment is indeed expected to be correlated with the transition risk (as it indicated the scope of required transformations by the clients). Yet, it should also be made clear in point 35 that the 1.5°C scenario should be used. In the EBA guidelines, there are no details on the scenario to be used.

We also support the use of the IEA scenarios as they are largely recognised and used. Yet it should be clarified that, where IEA sets targets in terms of absolute and intensity, both should be considered. Moreover, it should be clarified that the latest updated scenario should be used to prevent the use of outdated scenarios.

Finance Watch acknowledges the need for more granularity on the reference scenarios, but calls for a greater convergence in terms of the scenarios to be used by banks - recognising the challenges outlined above and also the need for consistent and comparable results of transition planning by institutions. Comparability is a pre-condition for supervisors to review and benchmark transition plans for the SREP purposes. We therefore encourage the EBA to work with other EU supervisory authorities, as well as non-financial authorities, to establish a set of scenarios for common use, as well as encourage further cross-institutional work on the sufficiently granular regional and sectoral pathways.

The reference to fossil fuel combustion in Point 36 should also be extended to the entire value chain (upstream, transformation, storage, refining, processing and distribution).

Further, given that there is currently no established and credible approach and/or metrics to analyse portfolio misalignment with climate objectives as a source of transition risk, we encourage EBA to further work on this issue and provide more guidance on the possible approaches with the view to comparability and credibility of the assessments. Notably, this work could also be relevant for the banks' Pillar 3 ESG reporting, as the EBA Pillar 3 ESG disclosures also include an alignment metric. For example, the ECB report, published in January 2024, provides a possible approach to the analyses (ECB, Risks from misalignment of banks' financing with the EU climate objectives, January 2024).

Finally, Finance Watch recommends formally instructing institutions to have internal procedures in place to assess their off-balance sheet exposures and, in particular capital market activities (such as underwriting and advisory services) both for physical and transition risks, as they may have a direct impact on the aggregate exposure of the institutions' to the risk. For example, transaction services for highly emitting companies, such as facilitated capital market activities, are ultimately exposing institutions to a risk for the stability of their business revenues, which needs to be reflected in the institutions' internal procedures.

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

Finance Watch **supports the recognition of the role that engagement should play as a tool** to mitigate ESG risks.

However, **EBA should clarify the expected measures to encourage counterparties to mitigate and disclose ESG risks.** Institutions indeed cannot consider having mitigated their ESG risks if engagement does not result in mitigating actions at the level of the counterparty or in the integration of the actual risk. Engagement activities should therefore be linked to clear time-bound objectives, an escalation process and a divestment strategy for off-track counterparties or counterparties with no sound and credible transition plans.

In the identification of priority counterparties where engagement should be carried, we also recommend EBA clarifying the factors of criticality. The size of the exposures, but also the sector, the availability of transition plans, the location and the deviation from initial transition targets are factors that should be considered.

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

As coined by Finance Watch in its report "Finance in a hot house world", **the time horizon of the scenarios analyses should be extended by several decades.** On current emissions trends, climate risks will probably not jeopardise the financial system before 2030. Extreme weather events are already accelerating, will unpredictably happen and, in particular with the crossing of tipping points, could reach catastrophic levels between 2060 and 2080. Decisions taken as a result of the current exercise should help to determine the level of losses that occur in the later period, which must therefore be included in the time horizon of the analysis.

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

See our response to question 9 in terms of the need for more guidance and convergence on possible indicators/metrics for climate-related risks, in particular transition-related risks (risks of misalignment).

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

No additional comments.

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

We strongly support the need for ESG risk reflections in the ICAAP and ILAAP with the aim to reach conclusions about banks' capital and liquidity adequacy to bear ESG risks.

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

See our response to question 9 below - we strongly support the EBA work to provide more guidance on the possible ESG risk metrics, in particular for the purposes of credit risk measurement (whereas the guidelines recognise that ESG risks are among the many drivers of credit risk). Given the uncertainties in regards to data, methodologies and time horizons, supervisory guidance here is crucial for the credibility and comparability of banks' risk assessment and, with those, to ensure their stability/solvency.

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?

No additional comments.

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

In line with its response to question 5, Finance Watch recommends EBA to **clarify the list of sectors that highly contribute to climate change** referred in point 72 b) as the current reference to Sections A to H and Section L of Annex I to Regulation (EC) No 1893/2006 does not provide a sufficient granularity to understand the actual exposure of the companies to transition risk.

In line with its response to question 8, Finance Watch recommends EBA to **add facilitated emissions and risk metrics for off-balance sheet exposures** to the list of ESG risks metrics and indicators that institutions should monitor.

We further encourage the EBA to weigh in on the discussion about credible methodologies which can be used for scope 3 emission reporting and associated risk assessments, given the proliferation of many private initiatives in this space and the need to ensure comparability and accuracy of the underlying data as an input to risk management processes.

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?

Finance Watch recommends EBA to **better specify how the consistency of prudential plans with other processes and communication should be kept**. In particular, point 79 instructs institutions to integrate ESG factors in their forward-looking funding strategy. However, the guidelines give very little details on how this integration should be carried in practice.

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

Finance Watch highlights the role that remuneration policies can play to encourage the management body to implement a strong, sound and credible ESG risk management framework. Finance Watch therefore encourages EBA to adapt its guidelines on sound remuneration policies to enhance provisions to prevent excessive ESG risk taking and encourage the adoption and implementation of credible transition plans in line with the regulatory requirements.

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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?

The metric detailed in point 94 e) on the percentage of counterparties with whom the institution actively engages regarding adaptability and resilience to the transition to a sustainable economy needs to reflect that **engagement should be performed for companies that need to take further transition actions.** A concentration of engagement on companies that are already sustainable would indeed not mitigate where actual transition risk is higher.

Additionally, Finance Watch recommends that CRD-based transition plans should at least include targets on exposures to restrict and reduce financial services to fossil fuel companies and projects and consider the deviation from those targets as high risk exposures.

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?

Refer to our response to question 7.

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

No additional comments.

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?

Finance Watch supports the inclusion of more detailed requirements, as specified in answers to question 24 and 26.

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?

In line with the response to question 26, Finance Watch recommends providing more granular instructions on the content and the format of transition plans in order to guarantee the comparability and the quality of the exercise performed by institutions. The development of a prudential transition plan template should however not lead to the development of two transition plans. The instructions should therefore remain consistent with the content of the CSRD delegated acts.

In that context, **EBA should consider identifying CSDDD-based transition targets - regardless whether the institutions fall in the scope of CSDDD - as the first step to the development of prudential transition plans** to understand what it would represent for the institution to align with the objectives of the Paris Agreement. Prudential transition plans should then be completed with the alignment of the business strategy and targets with CSDDD-based transition targets and the assessment of other ESG risk metrics and indicators to assess the institution risk profiles and the necessary mitigating measures.

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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.

No additional comments.

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

As a general remark, the guidelines provide a good framework for institutions to manage transition and physical ESG risks, but remain too principle-based. The flexibility left by the guidelines and the lack of detailed requirements will undermine the quality of the exercise and could lead institutions to develop a purely administrative exercise to justify not changing their approach to manage ESG risks. **Finance Watch therefore recommends EBA to provide additional minimum safeguards and clarifications on the practical implementation of the guidelines.**

Furthermore, given that transition plans per CRD are meant to serve as a tool to identify, manage and monitor ESG risks, these plans should be integrated throughout the existing risk management framework rather than be viewed separately or as an "annex". We therefore support **integration of requirements on plans in accordance with Article 76(2) CRD** (current chapter 6 of the proposed EBA Guidelines) **into the overall prudential framework, i.e. a better integration of requirements of chapters 4-5 of the Guidelines with chapter 6**. This will allow to avoid overlapping/duplicative requirements, which are partially present in the proposed Guidelines (e.g. on materiality assessment, metrics, scenario analyses, governance).

Finally, we encourage EBA to reflect on the current limitations of climate scenario modelling when reviewing the Guidelines on stress testing and highlight the need for further work on Pillar 1, in particular on the use of macroprudential tools to manage ESG risks.