Summary

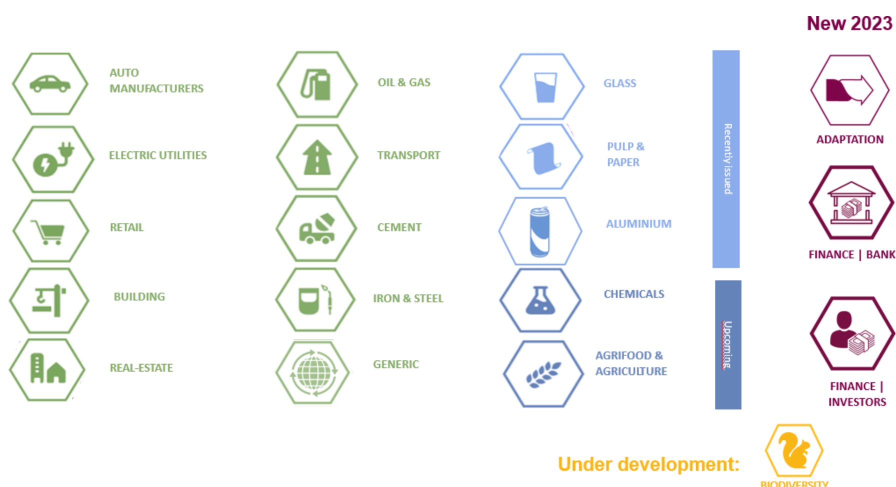
This document presents the answer of ADEME to the EBA consultation on Guidelines on the management of ESG risks.

Who we are

ADEME is the French ecological transition agency. ADEME is a public establishment under the authority of the Ministry of Ecological Transition and the Ministry of Education, Research and Innovation.

Our mission is to accelerate the transition to a more sober and supportive, job-generating, humane and harmonious society. To this end, we develop and support several actions, encompassing the ACT initiative which aims at providing companies with tools that enables them developing credible and robust transition plans:

- ACT Step-by-Step to guide companies, no matter their size and sector of activities, to develop coherent low carbon strategies and implement relevant action plans.
- ACT Assessment to provide a detailed view of the strengths and weaknesses of a company regarding its climate transition journey. The methodology has been adapted to 14 high-emitting sectors as of today, adding a generic methodology and two methodologies for financial institutions: banking and investing. Non-climate mitigation issues start to be tackled with an Adaptation methodology that is live and a Biodiversity methodology under early stage of developments.



ACT initiative can be used by financial institutions in various way:

- As a tool of engagement for companies in portfolio not having set transition plan yet (ACT Step-by-step);
- As a tool of risk identification, risk monitoring, engagement, decision-making regarding any company in portfolio that has been evaluated through an ACT assessment;
- As a tool of self-assessment by the financial institution/supervisor tool in order to help understand strengths and weaknesses of a financial institution's transition plan by being assessed itself through the ACT Finance methodology.

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Why we answer this consultation

CRD6 amendment is another piece of regulation that will request financial institution to display a transition plan and impose banks to set procedures and rules that embed the power to shift the financial flows and ultimately get an impact on the real economy and reaching Paris Agreement.

Thus we want to ensure that this regulation is correctly articulated with other concepts and guided in what we believe, leveraging on 8 years of experience in the transition field, including 2 years in the transition finance, is the right direction.

Main comments

We would like first to thank you for the thorough work performed with these already quite matured guidelines. Our main attention points are regarding the following topics. They are substantiated as much as possible by concrete proposals of text amendments throughout the questions.

- **Prudential vs. non-prudential transition plans: a need for consistency**

We understand EBA's interest in considering a prudential transition plan framework that is separate from the non-prudential transition plan. However, we believe that the nature and methods of analysing a financial institution's financial risks are significantly different depending on whether or not the institution has published a "non prudential" transition plan within the framework of the CSRD or the CSDDD.

While the “prudential plan” (and associated supervisory focus) remains exclusively within a notion of single materiality (climate-related financial risks), we consider that the "non-prudential" plan affects the bank in different ways, so that it must be more specifically the subject of connexion with supervision:

1. For consistency and integrity matter: the bank must assess the risks (and opportunities) arising from its transition plan. The term risk occurs 805 times in the delegated acts on the ESRS (supplementing Directive 2013/34/EU), the elements of the climate transition plan described in the ESRS E1.1 include in particular the risk identification and management processes provided for in the ESRS 2 (SBM-3 and IRO-1). If a bank publishes a “non-prudential” transition plan, it seems necessary to monitor and control the consistency of its prudential transition plan with it. Even if EBA wants to limit the supervisory burden of prudential plans, if a non-prudential transition plan in CSRD format exists, very explicit links will have to be made with the prudential transition plan on the issues of risk identification, measurement and mitigation.

2. For contribution to the strategy: the articulation between prudential and non-prudential transition plans is conceptually sound from a CRD6’s standpoint but a potential source of confusion and inefficiency at global level, notably with the objective to reach the European Climate Law objective. We would like to make explicit in the regulation two points:

a. that **in no case the prudential plan can cause harm to the non-prudential objective** of reaching Paris Agreement. An example of undesired behaviour would be for instance if a bank, as part of mitigating transition risk, lobbies against a necessarily climate regulation that would penalize a part of its portfolio from a financial standpoint.

b. that **there could be situation of "risk arbitrage" where implementing the non-prudential transition plan could mean – at short term and on specific perimeters – more risks for the bank**. As a matter of fact choosing to phase out climate damaging businesses or supporting climate solutions could translate in term of financial risk perspective in short-term rise of market/credit risk, or a rise of business model risk due to lost opportunities in still profitable business with somehow limited reputation/legal risks. At the long-term, we believe this should more than compensated by less transition/physical risk. While this statement seems consistent with the way the guideline is shaped, we believe this might worth an explicit statement that this "risk arbitrage" on some risks vs. other is a suitable behaviour. As a matter of fact, given the global landscape (upcoming highly significant long-term risk due to global warming/other environmental factor that needs stringent economical shifts at short and middle-term to face it), it is necessary that banks are not prevented from implementing necessary actions because of relevant but short-term risk views.

3. For limiting financial risks generated by discrepancies: the absence of a transition plan in CSRD format, or the publication of a plan that is insufficiently robust to contribute to the European Union's objectives, exposes the bank to numerous reputational, image and litigation risks generating financial risks. This responsibility and these risks are valid not only from the point of view of the climate, but more generally of all the sustainability issues addressed by the CSRD and the duty of vigilance.

Ultimately, the ideal setup is in our view **a single transition plan disclosed according CSRD and fed by different relevant pieces of regulations** depending on the nature of the undertaking (CSDDD, CRD6/Solvency 2, EU ETS where relevant…).

- **Portfolio classification and transition plan assessment: the cornerstone of FI's climate strategy**

We believe that the cornerstone of the financial institution climate strategy, both from a risk and an impact perspective, should be the classification of their assets: non-aligned (and thus subject to transition/physical risk) or on the contrary low/carbon aligned (thus with low risks from this perspective). This classification can also be used as the basis of engagement strategy, limit framework and decision making. The key aspect is to request banks to setup sound assessment framework for performing this classification. It is on this point that consensus-building is currently underway, notably with the work of ATP-CoI and the CBI, and we believe that these guidelines can, in the short to medium term, play a role in ensuring the consistency of frameworks from one bank to another.

- **Exposure-based vs. portfolio alignment metrics: beware of non-interpretative model-dependent metrics**

We believe that financial institutions have an indirect role in the transition as they are not polluting directly but they finance those who are polluting, in the real-economy. Following this statement, the right level of analysis from our point of view, both in term of impact and risk perspective, is the economical actor level, meaning either an issuer either a given project financed through use of proceeds. By opposition, we see not much added-value in trying to assess impact or risk using a global financial portfolio alignment metric, such as for instance an implied temperature rise, or financed emissions *per se*. On the contrary we believe that such metrics, applied to financial portfolio that do not bear in themselves any economical consistency, would provide an adding layer of complexity, with sometimes an illusion of scientifical correctness, but that in practice could lead to a risk management highly model-dependent, with possibility of technical optimisation of metrics against risk appetite without

any possibility of concrete interpretation. We therefore put as a strong statement that such approaches should be dismissed. At some extent we would be keener to replace it by economically consistent perimeter, such as sectoral alignment metrics. This statement does not prevent financial institution to use portfolio alignment metrics, but complementarily and secondarily to other approaches.

Questions & Answers

General

Q1

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?*

We disagree with too much distinction between prudential and non prudential transition plans. Focusing on prudential transition plans implicitly allows situations and mitigation actions that would be incompatible with non prudential transition plan. We believe that the principle of only "one transition plan" have to be in mind of the EBA at the risk of creating a schizophrenic situation if not. An example of undesired bias by setting separately prudential and non prudential transition plans would be a prudential transition plan embedding as risk mitigation actions regulatory lobbying against the financial penalization (under whatever form: carbon tax, norms, quotas…) of climate damaging activities in order to mitigate legal risk, or greenwashed campaigns in order to mitigate reputational risk. EBA can choose various way of ambition to guarantee some consistency.

a. The most appropriate for us is to consider a single transition plan fed by various regulatory requirements (CSDDDD, CRD6), the non-prudential transition plan being therefore a sub-part of this transition plan.
b. Should different transition plans be kept, there should be a need to ensure a monitoring and control consistency for the overlapping part of the prudential plan and the "non prudential" plan regarding risk identification, analysis and mitigation. As a reminder, financial risks are mentioned 805 times in the delegated acts of the ESRS.
c. A minimal less coherent approach should be to have an explicit statement in guidelines saying that considering the global picture, some situations/mitigation actions are non-appropriate seems in our view a minimum in order to ensure at least a "DNSH" principle of the prudential transition plan vs. the non prudential transition plan.

To our mind the paragraph 17of the background and rationale could be amended with the sentence:

"*Whether the bank has published a transition plan within the framework of the CSRD or the CSDDD, the prudential transition plan provisioned by CRD6 should be set as a sub-part of this transition plan. At least, it must show its consistency with the rest of the bank's strategy. This concerns on the one hand the identification modalities, analysis and risk mitigation but also the fact that the transition plan based on the CRD contributes and in any case does not harm the climate strategy published by the company.*"

Q2

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

We're aligned. Complexity should be measured in terms of ESG risks rather than financial exposure. E.g. for climate in term of GHG exposures rather than credit lines amount.

This requires therefore at least a minimum standard in term of measuring the risk, which might not be obvious regarding various aspects to take into account, and could be subject to progress through time.

Q3

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 disclosed in Q1, we would like to ensure that there is at least consistency between risk mitigation actions stemming from the prudential transition plan and the non-prudential transition plan. As a matter of fact, it's true that ultimately impact risk can result in financial risks but it will be through specific risks as mainly legal risk/reputational risks so a different kind than "classical" market/credit risks. This situation could lead to undesired behaviors. As a matter of fact, "legal" and "reputational" risks could be mitigated by both mitigation actions favorable but also non detrimental to transition achievement

- E.g. legal risk through lobbying against financially penalizing measures for climate damaging activities or for explicit forbid of financing of some activities.
- E.g. reputational risks through "greenwashing" campaigns.

On how to handle various risks, our recommendation would be to avoid "aggregated score" between different risks and rather focus separately on each meaningful dimension.

- With aggregated metrics, there is always a risk of black-box/highly model-driven/non-interpretative scores.
- Therefore there would be assumed overlaps reflecting the interaction between risks but this is not seen as an issue.

4.1 Risk materiality

Q4

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

14b: please specify under which perspective should be appreciated the "significance" of activities, services and products (ie should be on from the underlying risk perspective, eg GHG financed emissions for climate mitigation risk)

Q5

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

- 16: technical point but maybe more impactful to quote an actual regulatory element than a recital, meaning quoting SFDR appendix I regarding the definition of sector highly contributing to climate change?
- Please note that companies will have to consider their material risk and impact on climate and ESG in the context of CSRD reporting and future due diligence process. For the companies concerned, it seems useful to mention a link to their own materiality analysis. Particularly the financial penalties applicable to companies under the CSDDD merit greater vigilance in their risk analysis in the context of CRD-based transition plans.
- 17: we understand the idea of leveraging on EU Taxonomy but unfortunately, in the absence of “brown taxonomy”, a high level of alignment is not a guarantee of “no material issue” (see for example an Elec Utilities mix producer 60% aligned with 40% coal and no intention at all to phase out the latter: the aligned ratio will be high but the company remains a material issue).
    - Add “with due justification that the non-aligned/non eligible part is not harmful to taxonomical objectives” or something like that?
- At the light of the difficulties stemming from the identification of transition risk, we’re unfortunately not so sure it would provide better results on other type of risks (physical, social, governance).

4.2 Identification and measurement of ESG risks

Q6

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

- 23. We would like to propose some reshape in 23. Criteria regarding environmental risk, notably to explicitly embed climate mitigation transition plans as an essential piece of information in order to assess transition risk of a counterparty.

Initial wording	ADEME comment	Proposed alternative
i. geographical location of key assets and exposure to environmental hazards (e.g. floods, water stress, soil erosion) at the level of granularity needed for appropriate physical risk analysis,		
ii. current and forecasted greenhouse gas (GHG) scope 1, 2 and 3 emissions in absolute and/or intensity such as per million-euro	Due to known weaknesses of “monetary intensity” it is proposed to reshape this requirement and make a hierarchy of metrics. In addition, it	ii. current and forecasted (short, middle and long-term) greenhouse gas (GHG) scope 1, 2 and 3 emissions in absolute, and where

revenues or per units of production,	is proposed to specify the timeline consistently with global requirements.	relevant in intensity per unit of production, or, where there is no better option, in intensity such as per million-euro revenues
iii. material impacts on the environment, including climate change and biodiversity, and related mitigation or adaptation policies,	Not easily understandable in our view (who assess that impacts are material). Leverage more explicitly on CSRD?	
iv. dependency on fossil fuels, either in terms of economic factor inputs or revenue base,		
v. energy and water demand and/or consumption, either in terms of economic factor inputs or revenue base,		
vi. energy performance certificates and score in kWh/m² for real estate exposures,		
vii. adherence to voluntary or mandatory climate and environmental reporting,		
viii. litigation risk including imminent, pending or completed litigation case related to environmental issues,		
ix. forward-looking adaptive capacity, including transition plans prepared by non-financial corporates in accordance with Article 19(a) or Article 29(a) of Directive (EU) 2022/2464, where applicable.	Some comments: We would like to make a focus that transition plans are the cornerstone of the credibility of a company regarding Climate transition and associated risks. is there a rationale for focusing only on non financial corporates? Beyond that, unless mistaken, it seems that the right reference would be the 2013/34/EU and not 2022/2464 Finally we fear that the word "adaptive", that is not used in 19a nor 20a of Directive 2013/34/EU, might confuse people with the climate adaptation objective.	ix. forward-looking capacity, including notably transition plans prepared by corporates in accordance with Article 19a or Article 29a of Directive 2013/34/EU, where applicable.
	As transition plan content is highly complex information, leveraging on third party assessment should be a useful source of information in order to avoid unnecessary burden.	x. third party assessments performed regarding environmental performance, notably credibility and robustness of corporate transition plans
	Add exposure to EU quota system?	xi. Management of EU emission trading system provisioned by 2003/87/EC directive and carbon boarder adjustment mechanism provisioned by Regulation 2023/956 and associated corporate financial risks

Q7

<u>Question 7</u>: Do you have comments on the measurement and assessment principles?

27. As disclosed in the synthesis and in Q9 below, we do not consider portfolio alignment methodologies as relevant and would advise to not put them into light. We see them as, mostly, an artificial level of technical complexity highly model-dependent.

- We have provided a deep-dive analysis of those indicators funded by EU LIFE granting (alignment cookbook), concluding to the large variability of results. Please have a look to the correlation of results issuing form main alignment methodologies p.81 of the report.

As a comparison, we do not see in the "classical" risk framework any common risk metrics that would assess collectively the portfolio risk (liquidity, market, credit...), but rather aggregated values combining individual risks, taking into account if relevant correlations. Thus it seems in our view not straightforward to create some specificities in this area for measuring sustainability risks. To some extent, one could consider that collective metrics performed at an economically sound perimeter (such for instance as a value chain **or a sectoral-based perimeter**) might bear some relevance, leveraging notably on transition scenarios and objectives that can commonly be disclosed at this level of granularity.

Depending on the solution, in the following proposal "portfolio based" methodologies could either be dismissed or replaced by "sectoral-based" methodologies.

Initial wording	Proposed alternative
27. Institutions' internal procedures should provide for a combination of methodologies, including exposure-based, portfolio-based, and scenario-based methodologies, as set out in paragraphs 30 to 39. The combination of the methodologies should be put together in a way that allows institutions to comprehensively assess ESG risks across time horizons. In particular, institutions should use the exposure method to obtain a short-term view of how ESG risks are impacting the credit risk profile and the profitability of counterparties, use the portfolio-based methods and scenario-based methods to support the medium term planning process and the definition of risk limits and risk appetite steering the institution towards its strategic objectives, and assess through scenario-based methods their sensitivities to ESG risks across different including long time horizons.	27. Institutions' internal procedures should provide for a combination of methodologies, including exposure-based~~, portfolio-based,~~ and scenario-based methodologies, as set out in paragraphs 30 to 39. The combination of the methodologies should be put together in a way that allows institutions to comprehensively assess ESG risks across time horizons. In particular, institutions should use the exposure method to obtain a short-term view of how ESG risks are impacting the credit risk profile and the profitability of counterparties, **and** use the ~~portfolio-based methods and~~ scenario-based methods **(i)** to support the medium term planning process and the definition of risk limits and risk appetite steering the institution towards its strategic objectives, and ~~assess through scenario-based methods~~ **(ii)** their sensitivities to ESG risks across different including long time horizons.

Q8

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

- 31. Regarding transition risk, and consistently with 23. amendment, we propose to amend the draft guideline in order to highlight the importance of having a view on the counterparty's positioning in term of transitioning credibility, as any other aspects will be sub-components of this feature.

Initial wording	Proposed alternative
31. To conduct the assessment of environmental risks at exposure level, institutions' internal procedures should include a set of risk factors and criteria that capture both physical and transition risk drivers, including, where applicable, at least the following: […] b) the degree of vulnerability to transition risks, considering the relevance of technological developments and environmental regulations applicable or foreseeable to the sector of activity of the counterparty, as well as the current and forecasted GHG emissions in absolute and/or intensity of assets, or energy performance in the case of residential or commercial real estate exposures;	31. To conduct the assessment of environmental risks at exposure level, institutions' internal procedures should include a set of risk factors and criteria that capture both physical and transition risk drivers, including, where applicable, at least the following: […] b) the degree of vulnerability to transition risks, considering **where relevant the credibility and robustness of the transition plans of the counterparty to mitigate these risks,** the relevance of technological developments and environmental regulations applicable or foreseeable to the sector of activity of the counterparty, as well as the current and forecasted GHG emissions in absolute and/or intensity of assets, or energy performance in the case of residential or commercial real estate

Q9

Question 9: Do you have comments on the portfolio-based 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.

As stated in question 7, we advise to dismiss portfolio-based methodologies as we consider that asset-level assessment (possibly proxied, aggregated, …) is the relevant level of assessment. To some extent sectoral-based metrics could be considered, leveraging notably on existing transition scenario trajectories and sectoral objectives.

Reaching Paris Agreement is a collective goal, thus failing to reach it (which constitutes mainly a transition risk at the moment) is also a collective risk. Starting from this point, trying to build non-economically sound sub-level collective alignment metrics (such as financial portfolio typically are) is in our view useless and biased. We rather advise to leverage on individual assessment at company's level (or project level where relevant) as the analysis embrace here a consistent economical perimeter.

This being said, we consider relevant that the guidelines incorporate messages that companies in given sector of the economy shall all be assessed, such as proposed in 36, and that their transition positioning is assessed leveraging on NZE 2050 or any subsequent scenario.

Alternatively, should a "portfolio-based methodology" being used, we strongly recommend to precise that only a sectoral-based approach is appropriated given that the goal is not to have a trade-off between human needs such as agriculture, transportation, housing or energy but rather to have credible strategy and associated risk management process at sector level. Portfolio-level metrics encourage banks to finance climate-neutral sectors (luxury goods, services, etc.) rather than contribute to financing the transition. These metrics are a potential brake on the proper implementation of the "non prudential" transition plan.

5.1 ESG risks management principles

Q10

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

As seen in question 1, the articulation between prudential and non prudential transition plan bears the risk that harmful mitigation actions are taken by financial institution in the context of the prudential transition plan, to the detriment of the non financial transition plan, such as for instance lobbying against climate-favorable policy reforms that would trigger a transition risk to some FI's counterparties.

It is proposed to explicitly state in the guidelines that such tools are not acceptable.

Initial wording	Proposed alternative
42. Based on their identification and measurement of ESG risks and the assessment of vulnerabilities and mitigation needs, institutions should develop a robust and sound approach to managing and mitigating ESG risks over the short, medium and long term, including a time horizon of at least 10 years. Institutions should determine which risk management and mitigation tool(s) would best contribute to this, by considering a range of tools, including at least the following: [list of tools ranging from a to e]	42. Based on their identification and measurement of ESG risks and the assessment of vulnerabilities and mitigation needs, institutions should develop a robust and sound approach to managing and mitigating ESG risks over the short, medium and long term, including a time horizon of at least 10 years. Institutions should determine which risk management and mitigation tool(s) would best contribute to this, by considering a range of tools, including at least the following: [list of tools ranging from a to e] **In any case, it is specified that any mitigation action that would cause prejudice to the achievement of the Paris agreement, such as for instance lobbying against a policy reform in order to avoid the materialization of a transition risk, is not an acceptable management tool.**

5.2 Strategies and business model

Q11

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

In the Paris agreement achievement, we foreseen a time-horizon mismatch where it could be relevant for a financial institution to take at short term more "classical" financial risk (or less opportunities) in order to get at long-term less transition/physical risk, with a globally winning situation regarding the magnitude of the respective risks. This very peculiar feature, beyond a handling in 77., might need an explicit wording in the guidelines, for instance in the strategies and business model part.

Initial wording	Proposed alternative

43. Institutions should account for ESG risks when developing, formulating and implementing their overall business and risk strategies, which should include at least: [list of elements ranging from a to d]	43. Institutions should account for ESG risks when developing, formulating and implementing their overall business and risk strategies, which should include at least: [list of elements ranging from a to d] **e. considering risk arbitrage at various horizon levels, and the need to ensure that short, medium and long-term objectives and targets interact and are well articulated, such as for instance where there might be short-term market and credit risk/opportunity losses vs. long-term transition and physical risk.**

Furthermore, consistently with our respective positions on exposure-based and portfolio alignment strategy we propose to amend 44.

Initial wording	Proposed alternative
44. For the purposes of paragraph 43 and with a view to ensuring sufficiently informed strategies, institutions should consider insights gained from: a) Portfolio alignment methodologies, as described in Section 4.2	44. For the purposes of paragraph 43 and with a view to ensuring sufficiently informed strategies, institutions should consider insights gained from: a) **Exposure-based** ~~**Portfolio**~~ alignment methodologies, as described in Section 4.2

5.3 Risk appetite

Q12

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

Risk appetite is a framework for dialogue between strategy and risk considerations. It would be useful to take advantage of this framework to ensure overall consistency with any climate commitments made by the bank, the transition plan and its sector-specific dimensions on objectives (decarbonization, financing). All this should feed into the risk appetite and credit limits that the institution must set itself, if we assume that the prudential transition plan must contribute to (or not detract from) the climate transition plan.

5.4 Internal culture, capabilities and controls

Q13

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

One specific point that maybe could be highlighted is that a specific technicity might be required (especially on climate/biodiversity topics) so Financial institutions might leverage on external parties providing specific technical inputs and this could be explicated in the

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guidelines as this does not fit per se in the three lines of defense (e.g. set a guideline on how each line of defense should take into account the on-boarding on a given external methodology/expert).

5.5 Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process

Q14

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

NA.

5.6 Credit risk policies and procedures

Q15

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

The section on credit risk policies and procedures could in our view be more specific on the question of ESG risk mitigation measures. In particular, an analysis of companies' transition plans in high-stake sectors would seem to be a priority.

Initial wording	Proposed alternative
61. Institutions should develop and implement quantitative credit risk metrics with regard to environmental risks, in accordance with their risk appetite and covering most significant client segments, type of collaterals and risk mitigation instruments.	61. Institutions should develop and implement quantitative credit risk metrics with regard to environmental risks, in accordance with their risk appetite and covering most significant client segments, type of collaterals and risk mitigation instruments. Where material, **risk mitigation should first involve an analysis of the measures taken by the counterparties concerned to limit their transition risks, through their transition plan. In a second phase, risk mitigation may involve additional measures adopted by the bank (credit limits, guarantees, maturity cap, etc.).**

As consensus grows toward how should be assessed the credibility and robustness of a transition plan, guidelines should be updated and go further on how this assessment should feed the credit risk policies. At the moment, our view on the principles that should be taken into account is displayed in Q23.

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5.7 Policies and procedures for market, liquidity and funding, operational, reputational and concentration risks

Q16

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?

We feel that the core issue in term of reputation/litigation risk might be the discrepancies between bank's transition plan and actions. We think that this should be explicitly stated.

Initial wording	Proposed alternative
67. Furthermore, institutions should assess and manage the impact of ESG risks on conduct risks, litigation risks, and reputational risks, including by considering potential risks associated with lending to and investing in businesses which may be prone to ESG-related controversies. Institutions should have in place sound processes to identify, prevent and manage conduct, litigation or reputational risks resulting from greenwashing or perceived greenwashing practices taking into account the ESAs high-level principles set out in Section 2.1.2 of the EBA Progress Report on greenwashing monitoring and supervision. That should be done at both the institution (e.g. in relation to sustainability commitments perceived as misleading) and the product or activity level (e.g. in relation to products and activities marketed as sustainable), including by monitoring legal developments, market practices, and controversies around alleged greenwashing practices. Institutions should also consider, where applicable, the reputational risks associated with the failure to deliver on their sustainability commitments or transition plans, or with the (perceived) lack of credibility of such commitments and plans.	67. Furthermore, institutions should assess and manage the impact of ESG risks on conduct risks, litigation risks, and reputational risks, including <u>**notably global consistency of bank's setup regarding sustainability issues, such as for instance potential discrepancies between bank's transition plan and actions or non-actions taken, or**</u> by considering potential risks associated with lending to and investing in businesses which may be prone to ESG-related controversies. Institutions should have in place sound processes to identify, prevent and manage conduct, litigation or reputational risks resulting from <u>**discrepancies in their setup, and more globally**</u> greenwashing or perceived greenwashing practices taking into account the ESAs high-level principles set out in Section 2.1.2 of the EBA Progress Report on greenwashing monitoring and supervision. That should be done at both the institution (e.g. in relation to sustainability commitments perceived as misleading) and the product or activity level (e.g. in relation to products and activities marketed as sustainable), including by monitoring legal developments, market practices, and controversies around alleged greenwashing practices. Institutions should also consider, where applicable, the reputational risks associated with the failure to deliver on their sustainability commitments or transition plans, or with the (perceived) lack of credibility of such commitments and plans.

From an editorial point of view given the length of the guideline topics could be split in two or several different points.

5.8 Monitoring

Q17

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

Some adjustments are proposed in the risk metrics and indicators quoted in 72, mainly to provide visibility to classification system to the detriment on “global portfolio alignment” metrics. As stated in question 7, such portfolio alignment metrics could be either limited or replaced by sectoral alignment metrics.

Initial version	ADEME comment	Proposed alternative
c) A measure of the potential gap between existing portfolios and benchmark portfolios consistent with the climate target applicable to the respective portfolios based on relevant legal and regulatory objective, such as reaching net-zero GHG emissions by 2050, based on portfolio alignment methods described in Section 4.2 ;	This proposed guidance seems to cover only/mainly portfolio alignment based methods (4.2 b). In our view as stated before it is not so much relevant and physically interpretable so consistently with comments set on question 7 it is proposed to withdraw this indicator.	*Dismiss*
d) Scope 3 emissions, i.e. GHG financed emissions, at least for sectors towards which the institution has material exposures, and based on clear and documented methodologies. Examples of methodologies to compute the carbon emission of companies include the Global GHG Accounting and Reporting Standard for the Financial Industry, developed by the Partnership for Carbon Accounting Financials, or the Carbon Disclosure Project;	Clarification proposed as there can be scope 3 emissions outside 3.15 category (investments).	d) GHG financed emissions (i.e. Scope 3.15 category of the GHG protocol), at least for sectors towards which the institution has material exposures, and based on clear and documented methodologies. Examples of methodologies to compute the carbon emission of companies include the Global GHG Accounting and Reporting Standard for the Financial Industry, developed by the Partnership for Carbon Accounting Financials, or the Carbon Disclosure Project;
e) The percentage of counterparties with whom the institution has engaged on ESG risks matters, e.g. in relation to their transition plans, at least for sectors and business lines which present material exposures to ESG risks, supplemented with information on the results and/or outcomes of such engagement;	Always hard to assess the quality of the engagement but hard to do better from a quantitative point of view	

<table>
<tr>
<td>f) Ratios representing as part of the institution’s total exposures the share of environmentally sustainable exposures financing activities that contribute or enable the environmental objective of climate change mitigation referred to in Article 9 point (a) of Regulation (EU) 2020/852, and the share of carbon-intense exposures, based on clear and documented methodologies. In addition, large institutions should complement this with monitoring metrics in the form of ratios representing, as part of their total exposures, the shares of Taxonomy-aligned exposures for other objectives of the EU Taxonomy as referred to in Article 9 points (b) to (f) of that Regulation, and the shares of exposures detrimental to the achievement of these objectives; for the purposes of determining exposures detrimental to the objective of biodiversity, large institutions should assess material negative impacts of their counterparties’ production sites, processes or products on biodiversity;</td>
<td rowspan="2">The f requirement leverages on taxonomy only, meaning a "look-through approach" that does not in itself allow to capture the transitonness feature of the investments. We propose to add a complementary metric on the share of companies covered according to a given classification: aligned, not aligned…</td>
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<td>fa) Split of the institution’s total exposures according to a classification system depending on the asset's alignment with Paris Agreement, based on clear and documented methodologies regarding the classification framework adopted and its implementation. Examples of classification framework include GFANZ, CBI or ACT Finance classification categories. For instance: not transitioning in a credible and robust way, committed, transitioning in a credible and robust way, already compatible with a low-carbon economy, not relevant from a climate’s standpoint …</td>
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6.1. Plans in accordance with Article 76(2) – Key principles

Q18

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?

74. We strongly recommend to reference the “non prudential” transition plan in order to avoid a schizophrenic climate strategy in the EU legislation.

Initial wording	Proposed alternative
74. The plans referred to in Article 76(2) subparagraph 2 of Directive 2013/36/EU should be based on a robust materiality assessment of ESG risks faced by institutions, conducted in accordance with Section 4.1. Institutions should in particular identify the exposures or portfolios, and the economic activities and production capacities being financed, which may be materially subject to ESG risks arising from the process of adjustment of the economy they operate in	74. The plans referred to in Article 76(2) subparagraph 2 of Directive 2013/36/EU should be based on a robust materiality assessment of ESG risks faced by institutions, conducted in accordance with Section 4.1. Institutions should in particular identify the exposures or portfolios, and the economic activities and production capacities being financed, which may be materially subject to ESG risks arising from the process of adjustment of the economy they operate in

towards the applicable legal and regulatory objectives related to ESG factors.	towards the applicable legal and regulatory objectives related to ESG factors. **In the event that the bank has published a transition plan within the framework of the CSRD or CSDDD, it is up to the bank to take into coherent account all the information already provided on its strategy, its identification, its analysis and its risk mitigation when providing its CRD-based transition plan in a consistent manner.**

75. The idea displayed in question 11 that in practice plans could lead to consider risk arbitrage depending on nature and time horizon could be embedded here also in order to highlight that there might be situation with more risk at a given short-term level but for the sake of less risk at long-term level.

Initial wording	Proposed alternative
75. For portfolios or exposures assessed as materially exposed to environmental risks, considering both transition and physical risks, institutions should set out dedicated transition planning aimed at addressing and mitigating risks in the short, medium and long term. While institutions should consider as materially subject to environmental risks their exposures towards certain sectors in accordance with paragraphs 16 and 17, they should use more granular information than solely sectoral classification to develop their risk assessment and transition planning.	75. For portfolios or exposures assessed as materially exposed to environmental risks, considering both transition and physical risks, institutions should set out dedicated transition planning aimed at addressing and mitigating risks in the short, medium and long term. While institutions should consider as materially subject to environmental risks their exposures towards certain sectors in accordance with paragraphs 16 and 17, they should use more granular information than solely sectoral classification to develop their risk assessment and transition planning. **Furthermore institutions might need to consider risk arbitrage at various horizon levels, such as for instance where there might be short-term market and credit risk/opportunity losses vs. long-term transition and physical risk mitigation.**

Eventually as already stated in question 10, the idea that the prudential transition plan should not "harm" the non-prudential transition plan could be explicitly stated in the (iii) Consistency of prudential plans with other processes and communications section.

Initial wording	Proposed alternative
78. Institutions should ensure that their plans are well integrated into the business strategies and that they are aligned and consistent with their risk and funding strategies, risk appetite, ICAAP, risk management framework and public communication, and include actions with regard to the business model and strategy of	78. Institutions should ensure that **both of** their plans **"prudential" and "non-prudential"** are well integrated into the business strategies and that they are aligned and consistent with their risk and funding strategies, risk appetite, ICAAP, risk management framework and public communication, and include actions with

the institution that are consistent with the plans disclosed pursuant to Article 19a or Article 29a of the Directive 2013/34/EU, where applicable.	regard to the business model and strategy of the institution that are consistent with the plans disclosed pursuant to Article 19a or Article 29a of the Directive 2013/34/EU, where applicable. **To the extent it is specified that any action that would harm the achievement of the Paris agreement, such as for instance lobbying against a policy reform in order to avoid the materialization of a transition risk, is considered as non-consistent.**

6.2 Governance

Q19

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

NA

6.3 Metrics and targets

Q20

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?

Consistently with previously stated comments we would like to propose some amendments to the list of metrics. As stated in question 7, portfolio alignment metrics could be either limited or replaced by sectoral alignment metrics.

One can note that taxonomy metrics could be also embedded in order to be consistent with 72. list.

Initial version	ADEME comment	Proposed alternative
a) Financed GHG emissions by scope 1, 2 and 3 emissions split by sectors, using a sectoral differentiation as granular as possible and taking into account methodologies referred to in paragraph 72d): the absolute emissions, in tons CO2equivalent, and intensity of emissions, relative to revenues or units of production, associated with a portfolio. To foster an active risk management approach, institutions should complement sectoral financed emissions targets with criteria supporting the explanation of portfolio emissions reduction or temporary increase and identifying the underlying drivers of emissions, such as technology mix of their counterparties;	Same comment as for ESG data 23. a ii : we consider "monetary" targets less relevant and would like to make a clearer hierarchy	a) Financed GHG emissions by scope 1, 2 and 3 emissions split by sectors, using a sectoral differentiation as granular as possible and taking into account methodologies referred to in paragraph 72d): the absolute emissions, in tons CO2equivalent, and where relevant in intensity per unit of production, or, by default, in intensity of revenues , associated with a portfolio. To foster an active risk management approach, institutions should complement sectoral financed emissions targets with criteria supporting the explanation of portfolio emissions reduction or temporary increase and identifying the underlying drivers of emissions, such as technology mix of their counterparties; ii. current and forecasted (short, middle

		and long-term) greenhouse gas (GHG) scope 1, 2 and 3 emissions in absolute, and where relevant in intensity per unit of production, or, by default, in intensity such as per million-euro revenues
b) Portfolio alignment metrics showing the extent to which sectoral exposures and production capacities operated by clients are, or are projected to be, (mis-)aligned with a pathway consistent with the applicable climate legal and regulatory objective, based on portfolio alignment methods described in Section 4.2 and related assessment of financial risks impacts;	Same idea than previously - proposed to withdraw…	*Dismiss*
	… and replaced by classification metrics as previously mentioned.	ba) Portfolio classification metrics regarding the asset's alignment with Paris Agreement, based on clear and documented methodologies regarding the classification framework adopted and its implementation. Examples of classification framework include GFANZ, CBI or ACT Finance classification categories. For instance: not transitioning in a credible and robust way, committed, transitioning in a credible and robust way, already compatible with a low-carbon economy…

6.4 Climate and environmental scenarios and pathways

Q21

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?

No, that seems sound.

6.5 Transition planning

Q22

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

In 102, we do not see the need to exclude by default financial counterparties from transition plan analysis. Furthermore it might be useful to put an emphasis on the need to assess the transitions plans of counterparties, as this is not a self-explanatory data. Thus the following changes are proposed.

Initial wording	Proposed alternative

102. Institutions should have in place sound data processes to collect, verify and aggregate the data that are needed to inform the formulation of their plans and monitor their implementation. This includes using available public information, including counterparties’ transition plan at least for non-financial corporates falling under the scope of Directive (EU) 2013/34, and collecting non-public data from counterparties on their sustainability profile, as set out in paragraph 23. Institutions should determine for which other counterparties they require the submission of their transition plans as part of business relationships.	102. Institutions should have in place sound data processes to collect, verify and aggregate the data that are needed to inform the formulation of their plans and monitor their implementation. This includes using available public information, including counterparties’ transition plan at least for ~~non-financial~~ corporates falling under the scope of Directive (EU) 2013/34, and collecting non-public data from counterparties on their sustainability profile, as set out in paragraph 23. Institutions should determine for which other counterparties they require the submission of their transition plans as part of business relationships. **Institutions should have in place sound analysis process to assess the data collected, including especially counterparties’ transition plans.**

Cautious of global operational burden, it might also be highlighted that FI can rely on third-party assessment, with due safeguards and care on the quality of the assessment.

General matters

Q23

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 the granularity is at the moment globally enough. We however think that it could be relevant to provide quite detailed guidelines on:

- How to assess risk materiality on various ESG risks as the monetary exposure is often not the right metric;
- How to assess specifically whether an asset is low carbon/transitioning in a credible and robust way or not.

As a matter of fact, as displayed in Q26, we believe there is a need for consistency of outputs among FIs on this topic.

As a first try, we can, waiting for more consensual work (see ATP-Col work by WBA), share what we believe should be common principles of what is a good transition plan assessment (see ACT Finance Banking methodology, indicator 4.1 dim. 3, p. 93 and fol.):

Assessor's guidance					
Robust and credible transition	As described in a better extent in the methodology, in order to assess whether a company has set a credible and robust transition plan, the following aspects should be considered.	Tier 1	Tier 2	Tier 3	Tier
	1. Targets:				

plan principles	1.1 Ambition/Targets' alignment: decarbonisation targets aligned with a 1.5°C trajectory (based on a 1.5°C scenario with no/low overshoot and a limited reliance on negative emissions). These targets must cover all significant scopes of emissions and disclose the expected contribution of negative emission technologies. They cannot rely on carbon offsets.	x			Tier 1
	1.2 Time horizon of targets: The ideal set of targets is forward-looking enough to include a long-term horizon that includes the majority of a company's asset lifetimes, but also includes short- and medium-term targets that incentivize action in the present and planning of the near future.		x		Tier 2
	2. Decarbonation strategy				
	2.1 Perimeter of the transition plan: the transition plan should address all the relevant areas regarding climate issues, particularly the decommissioning of highly emissive processes and operations.	x			Tier 1
	2.2 Decarbonation levers identified with key actions planned shall be provided, as well as the financial resources associated. Explanations provided regarding decarbonation levers shall be clear and credible, notably with due cautiousness regarding future technologies including carbon capture and storage. Expected contribution of negative emission technologies shall be disclosed, while transition plan cannot rely on carbon offsets. There should be an understandable linkage between financing needs and levers.		x		Tier 2
	2.3 Locked-in GHG emissions: An analysis of the current company locked-in trajectory (i.e., emissions implied by its current productive assets and near-term business projections) that ensures its consistency with the proposed decarbonation pathway. Together with this analysis, the company should provide an explanation of how it will manage its highly emissive processes and operations in accordance with its targets. For activities that must be significantly scaled down or phased out, it should also provide a schedule for the closing of relevant facilities.		x		Tier 2
	3. Management:				
	3.1 Clear oversight of climate change issues (net zero transition planning) and implication (approval of transition plan) at Board Level.	x			Tier 1
	3.2 Risk framework identifying the key sensitivities and risks to the transition plan that have the potential to decisively impact its delivery.		x		Tier 2
	4. Value chain engagement:				
	Defining strategy and associated actions to onboard all the value chain (clients and suppliers) in the net zero journey.		x		Tier 2
	5. Policy Engagement				

	Aligning lobbying activities with the Paris Agreement.			x	Tier 3
	6. Monitoring, reporting and Verification process:				
	6.1. Control/Validation: any element demonstrating the lack of robustness/credibility of the transition plan should be taken into account, such as for instance controversies, certification issues of the reporting related to climate topics, misalignment between lobbying activities or remuneration incentives with the goal to limit global warming to 1.5°C….			x	Tier 3
	6.2. Effective implementation of the transition plan should be monitored, any overshoot needing due explanations and adaptation of the transition plan.			x	Tier 3

Q24

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?

Common format would for sure be an asset for the purpose of supervision efficiency and continuous improvement of plans through the identification of best practices. The difficulty lies in the articulation between prudential and non-prudential transition plans, and whether in practice it can be possible/appropriate to disclose two different plans or a single combination of both aspects. This critical choice between an independent template at EBA level or EBA leveraging on CSRD disclosure items needs further thinking.

At a minimum, as EFRAG is supposed to published sectoral declinations of ESRS, we expect to have an interoperability regarding the financial risk information of the transition plan between both, if not possible to have a single consistent setup.

Q25

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.

- Inter-operability between prudential and non-prudential aspects: we need "one transition plan" at company level to avoid a schizophrenic climate strategy. Ideally, the "prudential" transition plan would be a component feeding the CSRD-based disclosed transition plan, if any. At least there shall be a "do not harm" principle in the prudential plan vs. the non-prudential one.
- Need to avoid, or at least not rely frameworks on model-driven metrics that provide a scientific illusion and are easily manageable from model point of view (e.g. implied temperature rise models) => proposal to dismiss signals going in this way.
- Setting up quality assessment framework of the credibility of transition plans. In the end, on the contrary to classical credit risk assessments where it is good to have a diversity of opinion in order to ensure market stability and avoid sheep/panic effects, we are here on a shared issue on how to reach a common goal against a physical problem, global warming. Therefore assessments shall be globally consistent and convergent in order to provide consistent signals in term of financing flows so as to

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make the real economy actors move. This goes through a mutualization/sharing of common principles, and EBA guidelines could be the place to set these common principles, see Q23.

Q26

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

- In order to avoid high reporting burden from corporates, would it be relevant, anywhere data shortage issue is tackled (e.g. 22. Or 32.), to suggest financial institution to rely on mutualization of efforts (e.g. mutualized questionnaire, common initiatives…)? Keeping of course as a safeguard the need to have sufficient understanding of the sources, data and methodologies used and performing regular quality assurance.

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