

Technical note on
**Draft Guidelines on
environmental, social and
governance (ESG) Scenario
Analysis**

EBA's consultative document highlights




1. General overview
2. Scenario analysis, an integral part of risk management and the strategic process
3. Steps for scenario analysis
4. Scenario analysis development processes and use in decision making
5. Why Management Solutions?



1 General overview


Executive summary

The EBA GL on ESG Scenario Analysis complement the GL for managing ESG Risks by providing a detailed framework for integrating ESG scenario analysis into risk management and strategic planning. They outline the key steps for performing scenario analysis, the related development processes, and its use in decision-making

 Context	 Objective	 Next steps
<ul style="list-style-type: none"> Factors such as climate change, environmental degradation and loss of biodiversity are prompting significant transformations within the economic and financial sectors, calling for a transition towards sustainable and forward-looking management practices. Institutions must enhance their ability to anticipate changes and incorporate the forward-looking dimension into their management frameworks. Furthermore, CRD 6, article 87a, requires the EBA to develop guidelines that establish minimum standards and reference methodologies for managing ESG risks. Within this framework, the EBA has released a consultation paper regarding the Draft GL on ESG Scenario Analysis, which is intended to complement the GL on ESG risk management published in January 2025. 	<ul style="list-style-type: none"> The GL are designed to define the standards for setting the scenarios that institutions ought to employ in assessing their resilience against the negative impacts of ESG factors, beginning with climate-related issues. This includes detailing how these scenarios should reflect potential environmental risks, assess impacts over the short, medium, and long term, and analyze the institutions' capacity to adapt, thereby protecting their financial stability and the sustainability of their business models in an environment of growing uncertainty. 	<ul style="list-style-type: none"> Q2 2025. Release of the final guidelines on ESG Scenario Analysis. 11 January 2026. Date for general implementation. 11 January 2027. Implementation date for SNCIs.

Main content

 <p>Scenario analysis, an integral part of risk management and the strategic process</p>	<ul style="list-style-type: none"> Institutions should use scenario analysis to manage ESG risks, support strategic decisions, and test their resilience. They can start with qualitative approaches and refine them with new data, ensuring the sophistication matches their size and complexity.
 <p>Steps for scenario analysis</p>	<ul style="list-style-type: none"> Institutions should create realistic climate scenarios by considering factors like socioeconomic context and climate policies. They need to identify how climate risks can impact traditional financial risks and continuously update their models based on new data and global trends.
 <p>Scenario analysis development processes and use in decision making</p>	<ul style="list-style-type: none"> Institutions should develop CST and CRA to assess and ensure their resilience against climate risks, using detailed scenario analyses and projections, while continuously refining their approaches based on evolving data and expert judgment.

 [Access to Document](#)

2 | Scenario analysis, an integral part of risk management and the strategic process

Purpose, governance, proportionality and learning curve

Institutions should use scenario analysis to manage material ESG risks, support strategic decisions, and test their resilience, being able to start with qualitative approaches, ensuring the sophistication matches their size and complexity

Purpose and governance

- Institutions should develop forward-looking approaches and conduct scenario analyses to effectively manage ESG risks and guide strategic decision-making. Scenario analysis should be used to **identify potential business risks and opportunities**, **assess portfolio vulnerabilities to physical and transition risks**, and **assess resilience** to the potential negative impacts of ESG factors, particularly those stemming from climate change.
- Scenario analysis also supports **strategy development, transition planning**, and **challenges business models** to ESG factors, including long-term factors. Additionally, it can raise awareness and embed ESG risk considerations in corporate culture. Institutions should **define** a credible, coherent **narrative** that **describes** their **vision of the most likely evolution of the business environment**. This narrative should be endorsed by senior management and used throughout the organization.
- Scenario analysis should be gradually **implemented across the management system**, focusing on financial resilience (maintaining sufficient capital and liquidity) and business model resilience (maintaining diversified revenue streams and responding to market changes).
- Governance arrangements should ensure the **robustness** of the **common narrative** and **scenarios**, which should be **regularly reviewed**. A cross-functional approach enhances consistency and relevance, with collaboration among multiple departments contributing to a comprehensive scenario analysis framework.
- **Scenario analyses** should be **documented** and **integrated** into **strategic planning**, with senior management promoting its use in decision-making processes.

Proportionality and learning curve

- Institutions should focus their **analyses on material ESG risks**, starting with the most significant ones. They should map ESG risks and transmission channels in relation to the sectoral and geographical exposure of their portfolios and activities, referring to the Guidelines on the management of ESG risks for their materiality assessment. Institutions may use qualitative or quantitative approaches, or a combination of both, and are encouraged to start with a qualitative approach, progressively moving towards more refined modeling as appropriate.
- As **new data becomes available**, including counterparties' transition plans and evolving scientific understanding of climate impacts, institutions should update their scenario analyses accordingly. The sophistication of the scenario analysis should match the size, nature, and complexity of the institution's activities and the intended use of the scenarios.
- If a comprehensive quantitative analysis is disproportionate, a simplified **qualitative approach should be considered**. The frequency and scope of scenario analyses should align with the institution's needs and capabilities.
- **SNCI** may initially rely on predominantly **qualitative scenario analyses**, in line with the Guidelines on the management of ESG risks and the Guidelines on institution's stress testing.

3 Steps for scenario analysis

Integrating climate scenarios and transmission channels

Institutions should set relevant and credible climate scenarios, considering various factors like socioeconomic context and climate policies, and identify climate transmission channels to effectively translate climate risks into traditional financial risks, continuously refining their models based on evolving data and international developments

Setting climate scenarios



- When setting climate scenarios, **institutions** should **consider various intertwined factors** to **ensure the scenarios are as relevant as possible**. These factors include the socioeconomic context (such as population growth, economic development, and social inequalities), technological evolution (innovation and infrastructure), climate policies (levels of policy intervention), energy systems (reliance on fossil fuels vs. renewable energy), consumer preferences (shifts towards sustainable goods), sectoral pathways to net-zero emissions, and emissions levels and their climate impact.
- **Institutions should use credible scenarios** based on **recent scientific knowledge** from recognized organizations like the Network for Greening the Financial System (NGFS) and the Joint Research Center of the EU Commission (EC). They should refine and customize these scenarios based on their specific needs, ensuring a good fit with their unique risk characteristics. This includes considering both physical and transition risks and ensuring consistency between scenarios over different time horizons.
- For **CST**, institutions should use a **baseline scenario reflecting current conditions and trends**, and a set of **adverse scenarios** that are **severe but plausible**. For **CRA**, they should use a central scenario reflecting the most likely future developments, along with a representative set of distinct, plausible long-term scenarios. Institutions should ensure that scenarios are internally consistent and aligned with their materiality assessment, focusing on relevant factors and appropriate complexity. They should also proactively gather necessary data to support meaningful scenario analysis results.

Defining climate transmission channels



- **Institutions** should **identify relevant climate transmission channels** by **understanding** significant **climate threats** that could **impact** their **soundness**. For **transition risks**, they should consider socio-economic changes, political decisions, technological developments, and consumer preferences. For **physical risks**, they should consider acute risks from extreme weather events and chronic risks from long-term climate shifts. Institutions should account for their business model, portfolio composition, and geographical exposure, distinguishing between microeconomic and macroeconomic transmission channels.
- **Microeconomic channels** include direct impacts on counterparties, operations, and financial assets, while macroeconomic channels involve broader economic impacts. For **transition risks**, institutions should consider factors like corporate profitability, stranded or significantly impaired assets, legal liabilities, and household financial conditions. For **physical risks**, they should consider disruptions to business, household income, and asset damage.
- Institutions should analyze **indirect climate-related risks** through **value chains** and establish **transmission channels** for **both transition and physical risks**. They should consider mitigation factors like insurance coverage and adaptation plans. Institutions must translate these channels into traditional financial risks, such as business model risk, credit risk, market risk, liquidity risk, and operational risk. The identification of transmission channels should be a continuous process, and institutions should monitor international developments to improve their models.

4 Scenario analysis development processes and use in decision making

Testing financial and business model resilience

Institutions should develop CST and CRA to assess and ensure their financial and business model resilience against climate risks, using detailed scenario analyses and projections, while continuously refining their approaches based on evolving data and expert judgment

Testing financial resilience through CST



- Institutions should develop CST in line with the EBA Guidelines on institution's stress testing and ICAAP/ILAAP methodology requirements. They should regularly perform **credit risk stress tests** based on **severe but plausible recession scenarios** that include **ESG risks**, particularly **physical and transition risks from climate change**. Institutions should conduct a **gap analysis of their internal models** to identify areas for improvement and consider an in-depth overhaul of their approaches. **A two-phased approach may be adopted for integrating climate-related variables, testing new modules in a separate IT environment before full implementation.**
- **Institutions** should ensure **sector and country dimensions** are properly **accounted for** in their **models** and **apply climate shocks directly** at the **exposure level** where possible. They may use a **static or dynamic balance sheet** approach and should challenge the calibration of their CST model through external comparisons, internal reviews, and validation of third-party models. **Sensitivity analyses** can test model stability and identify non-linear effects. Institutions should use **expert judgment** to address limitations in climate data and progressively develop CST approaches to capture impacts on other risk categories. Key outputs from CST exercises should **include implied losses and capital and liquidity requirements**, with management actions to ensure solvency throughout adverse scenarios.
- Additionally, the **test of the bank's financial resilience** should be conducted with a short-term horizon (less than 5 years), under reasonable uncertainty, and using both baseline and adverse but plausible scenarios. A static or dynamic balance sheet approach should be employed, considering indirect effects and seeking consistency between counterparty and macro levels.

Challenging business model resilience through CRA



- **Institutions** should **conduct detailed analyses** of their **environment** and **business model, tailoring their CRA to key portfolios, markets, and geographic areas**. They should consider feedback loops from the financial sector's adaptation to rising risks and monitor capital reallocation movements. Institutions should **map qualitative and quantitative features of their business model and make projections based on their central scenario, using a dynamic balance sheet approach**. They should provide detailed information on strategy robustness over several time horizons and ensure projections comply with transition plans.
- **Institutions** should **challenge their strategy's resilience** with **alternative scenarios** and **consider disaggregated analyses**. Combining quantitative and qualitative approaches, supported by expert judgment, is essential. The key output of a CRA is a qualitative assessment of the business model's viability and strategy sustainability under different scenarios. Institutions should include high emission and 1.5°C climate scenarios among their alternatives. The CRA should help establish a long-term strategy, respecting risk appetite and transition plan objectives, while limiting negative impacts of adverse scenarios.
- The **resilience of the bank's business model** should be assessed with a long-term horizon (at least 10 years) under deep uncertainty, using a central scenario and a set of distinct alternatives. This should include a dynamic approach and incorporate sectoral trajectories and counterparty transition plans. The key objective is to evaluate the business model's compatibility with global warming of 1.5°C and ensure its robustness across different transition scenarios, aligning it with both strategic goals and risk appetite while minimizing the impacts of adverse conditions.

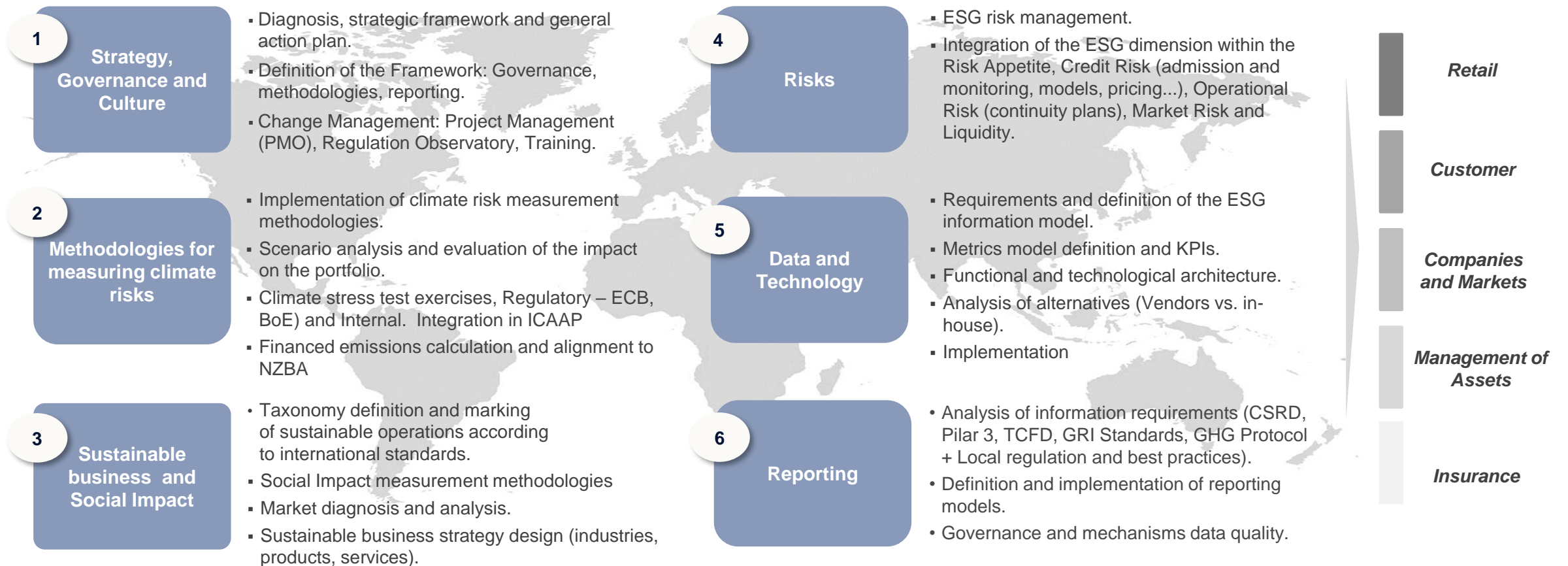
5 | Why Management Solutions?

Key aspects and differential value

Management Solutions has an expert working group that supports its clients in the implementation of their sustainability framework within each of the 6 defined lines of activity, bringing expertise in each business area

MS capabilities on sustainability

Business



5 | Why Management Solutions?

Key aspects and differential value

Management Solutions possesses robust expertise in initiatives aimed at incorporating ESG into risk management

Proven ESG experience

Extensive experience in the field of **sustainability and climate and environmental risk management** in **large financial institutions, non-financial sector companies and the World Bank**. We offer services in all areas of sustainability and climate risks with a **360° vision** (framework, governance, organisation, methodologies, management processes, tools, data and reporting).

Extensive experience in the field of risk management

Extensive experience in projects in different areas such as risk appetite, risk identification and assessment, limit setting, implementation of regulatory requirements in the granting and monitoring of credit, collateral management, regulatory stress testing exercises, ...

Experience in the field of integration of ESG factors in credit risk management

Proven experience in the integration of ESG factors in credit risk management based on the several projects undertaken: definition and implementation of the target operating model of integration in the management of ESG factors, materiality analysis, development of ESG policies, embedding of KPIs ESG in strategic plans, risk appetite and portfolio management, development of ESG assessment workflow of clients, climate stress testing exercises (EBA Climate data, ECB & PRA Climate ST)

ESG data

Holistic view of the ESG reporting model to cover both regulatory requirements (e.g. Pillar 3 ESG, ECB climate ST, CSRD...) and management requirements (e.g. annual report, sustainability reporting, green finance reporting...).

Benchmark capability

Benchmarking capacity in the field of ESG and specifically in the integration of credit management as a result of extensive **experience in various financial institutions in Europe and America, having carried out more than 200 projects.**

Specialist team

Specialist sustainability team with **extensive experience in regulatory requirements, supervisory expectations and market best practices.**

A | Annex I


Abbreviations


Abbreviation	Meaning
CRA	Climate Resilience Analysis
CRD	Capital Requirements Directive
CST	Climate Stress Test
EBA	European Banking Authority
EC	European Commission
ESG	Environmental, Social and Governance
ESRS	European Sustainability Reporting Standards
EU	European Union
GL	Guidelines
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process




International
One Firm


Multiscope
Team


Best practice
know-how


Proven
Experience


Maximum
Commitment

Manuel Ángel Guzman
Partner at Management Solutions
manuel.guzman@managementsolutions.com

Marta Hierro
Partner at Management Solutions
marta.hierro@msspain.com

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