



TOPICS:

ESG Risk

SOURCE:

European Central Bank

ECB: Good Practices for Advancing Climate and Nature-Related Risk Management

- ECB Banking Supervision has **updated** its compendium of **good practices for climate and nature-related risk (C&N) management and stress testing**.
- The updated compendium provides practical examples drawn from more than 60 supervised institutions **to support banks in strengthening compliance with existing prudential frameworks**, including the EBA's ESG risk management guidelines and the ECB Guide on climate and nature-related risks. The document stresses proportionality, noting that smaller or less exposed institutions may adopt less sophisticated methodologies where appropriate.
- A major focus is prudential **transition planning**, which requires banks to evaluate how different decarbonisation pathways could affect long-term resilience, profitability and capital adequacy. ECB highlights emerging practices such as transition finance for high-emission sectors, client engagement strategies to mitigate physical risks and strategic pricing approaches that support investment in renewable technologies and green innovation.
- The ECB also places significant emphasis on **scenario analysis and stress testing**. Leading institutions are increasingly applying granular counterparty-level transition risk modelling and detailed geolocation analysis for acute physical risks, including floods, droughts and wildfires. Nature-related risk management remains comparatively immature, with many banks still lacking integrated risk indicators, escalation thresholds and links between materiality assessments and management action. However, some institutions are beginning to incorporate biodiversity, water scarcity and ecosystem dependency risks into ICAAP frameworks and capital planning processes.
- ECB Banking **Supervision will intensify scrutiny** of risk underestimation, physical climate exposures and nature-related vulnerabilities during the 2026–2028 supervisory cycle, reflecting broader concerns regarding financial system resilience under heightened environmental uncertainty.

