



TOPICS:

ESG risk

SOURCE

European Banking Authority

EBA: Final Guidelines on Environmental Scenario Analysis

- The EBA published its final **Guidelines on Environmental Scenario Analysis** to support institutions in testing their resilience to environmental risks, particularly those arising from climate change. Implementation is set for **1 January 2027**, following the earlier application of broader ESG risk guidelines in January 2026.
- The Guidelines introduce a **structured approach** to environmental scenario analysis, emphasizing both **short-term stress testing and medium to long-term business model resilience assessments**. Institutions are required to evaluate their vulnerability to physical and transition risks, develop forward-looking strategies, and integrate environmental considerations into capital and liquidity planning.
- **Key areas** covered include: 1) **Scenario design** - Institutions must use credible, science-based scenarios aligned with international benchmarks (e.g. NGFS, IPCC, IEA), tailored to their business models and material exposures;

2) **Transmission channels** - The Guidelines detail how environmental risks propagate through traditional risk categories (credit, market, operational, etc.) via both microeconomic and macroeconomic pathways; 3) **Proportionality** - Scenario analysis should be commensurate with the institution's size, complexity, and the materiality of environmental risks. Simplified or qualitative approaches may be suitable for smaller institutions or for less mature methodologies; 4) **Governance** - Institutions are expected to embed scenario analysis within their risk management frameworks, supported by robust governance, cross-functional collaboration, and documented assumptions; 5) **Data and capabilities** - Emphasis is placed on improving data quality, analytical capabilities, and the progressive development of scenario frameworks.

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