Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e. V.
Bundesverband deutscher Banken e. V.
Bundesverband Öffentlicher Banken Deutschlands e. V.
Deutscher Sparkassen- und Giroverband e. V.
Verband deutscher Pfandbriefbanken e. V.

Die Deutsche Kreditwirtschaft

Comments

DK-Response to the consultation on Joint Guidelines on integrating ESG risks in supervisory stress testing

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The **German Banking Industry Committee** is the joint committee operated by the central associations of the German banking industry. These associations are the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR), for the cooperative banks, the Bundesverband deutscher Banken (BdB), for the private commercial banks, the Bundesverband Öffentlicher Banken Deutschlands (VÖB), for the public banks, the Deutscher Sparkassen- und Giroverband (DSGV),
for the savings banks finance group, and the Verband deutscher Pfandbriefbanken (vdp), for the Pfandbrief banks. Collectively, they represent approximately 1,700 banks.

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Comments

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Question 1 - Please add here any comments on "Title I - Subject matter, scope and definitions"

The German Banking Industry Committee (Deutsche Kreditwirtschaft – DK) generally welcomes the objectives proposed in the draft Guidelines for integrating ESG risks into supervisory stress testing and their cross-sectoral orientation. In our view, the intended goals of raising awareness of ESG risks, promoting risk identification, and increasing methodological maturity in supervisory practice are understandable and appropriate.

Question 2 - Do you agree with the list of objectives? Do you have any additional suggestions (addition, removal, precision, etc.)?

We encourage a more differentiated approach when defining the scope of application. In particular, smaller, locally operating institutions with standardized business models should be explicitly identified as target groups for simplified requirements in line with the proportionality principle. When defining the group of institutions eligible for such simplifications, particular attention should be paid to consistency with existing ESG-Guidelines (e.g. EBA Guidelines on the management of ESG risks, which provide relief for SNCIs and other non-large institutions).
Furthermore, the Guidelines should regularly indicate where and how simplifications can be effectively implemented based on the proportionality principle.
The programmatic alignment mentioned in paragraph 15 between the supervisory stress testing framework and the EBA Draft Guidelines on ESG Scenario Analysis is, in principle, a positive step. The inclusion of long-term ESG risks, as proposed in paragraph 15, is substantively justified. However, the scope of application should be clearly limited to methodologically sound time horizons, methodologies, and levels of granularity. This is especially important given that the new EBA Draft Guidelines on ESG Scenario Analysis introduce long-term climate resilience analysis as a new supervisory tool – an area still marked by considerable uncertainties and in need of further methodological maturity.
Regarding the prioritization and feasibility of objectives, we raise concerns about the practical implementation. The draft Guidelines set out a broad range of objectives, the simultaneous pursuit of which – particularly for smaller institutions – would require disproportionately large resource commitments. We therefore suggest integrating ESG risks into supervisory stress testing in a risk-based manner, while also taking into account the methodological learning curve within institutions (e.g. data requirements, methodological complexity, reporting formats). Consequently, enhancing the practical feasibility of the Guidelines should be added as an explicit operational objective.

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Question 3 - Do you have any comment or suggestion on paragraphs 16-18 on "Materiality assessment"?

The German Banking Industry (DK) supports the risk-based approach to the assessment of the materiality of ESG risks in supervisory stress testing, as set out in paragraphs 16–18. Taking into account institution-specific business models, portfolios, and geographical risk factors is appropriate and enhances the effectiveness of risk-based supervision. We offer the following suggestions:
The requirements for materiality assessments could be made more concrete and simplified. For small and non-complex institutions, as well as other non-large institutions, these requirements should be designed in a practical and proportionate manner. The aim should be to ensure consistency in proportional relief across all ESG-related Guidelines. Accordingly, the same scope of application as defined in EBA/GL/2025/01 should apply.
It should be explicitly permissible to conduct simplified qualitative assessments, for example based on existing internal risk identification processes. A burdensome quantitative materiality analysis should not be implicitly expected from small institutions. Any such regulatory expectation gap should be avoided.
In all cases, banks should be given sufficient lead time to engage with those risk factors that supervisors consider to be generally relevant for the stress test. Furthermore, effective options should be provided to allow institutions to complete the stress test without being required to build extensive datasets for ESG risk factors that are not material at the institutional level.
The materiality section should also clarify that institutions are not expected to develop extensive stress test scenarios for non-material ESG risks. In cases where multiple ESG risks are identified as material, only the most material ones should be reflected in the stress test design (paragraph 16). Otherwise, there is a risk of creating implicit expectations that would contradict the intention of a risk-based approach.
Regarding the dynamic nature of the materiality assessment (paragraph 18), it remains unclear which aspects of the methodology this refers to, how frequently reassessments are expected, and based on which criteria or thresholds they should be carried out.

Question 4 - Please add here any additional comments on "Title II - Requirements regarding consistency, long-term considerations and common standards for assessment methodologies in stress testing of ESG risks - 4.1 Objectives"

We welcome the phased approach to the introduction of ESG stress tests, with an initial focus on climate and environmental risks, including both physical and transition risks. This allows for a gradual build-up of internal resources and methodological expertise. However, a key prerequisite remains the availability of reliable ESG data of sufficient quality and granularity.
In light of the EU’s current Omnibus initiative, the fulfilment of this prerequisite—particularly in the short- to medium-term—appears increasingly uncertain. In this context, we believe that two parallel measures are necessary:

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- First, stronger EU-level efforts are needed to incentivize non-NFRD/CSRD-reporting companies to voluntarily adopt the VSME (Voluntary SME standard) as an ESG data standard, especially for banks and other stakeholders across value chains.
- Second, supervisory expectations regarding the development and applicability of quantitative methodologies built upon stagnant or incomplete data quality must be appropriately recalibrated. This also applies to the reliability of insights derived from such methodologies.

The integration of ESG risks into existing stress testing frameworks is, in principle, efficient. However, it requires the use of appropriate models and clearly defined transmission channels. The potential systemic implications of ESG risks due to cross-sectoral interlinkages are indeed relevant, but systemic spillover effects should only be incorporated where there is robust empirical evidence to support them. We would welcome it if insights derived from cross-sectoral collaboration, especially data-based findings, were made available to banks.
Cross-sectoral analysis should primarily be conducted at an aggregated (macro-level) scale, as smaller institutions in particular often lack the underlying data to perform such assessments themselves. The objective of harmonisation across the financial sector is a positive step, and we suggest the development of standardised formats for modelling transmission channels.
At the same time, individual institutions' specific business models and activities should be adequately taken into account when assessing the relevant ESG risks.
General comment on paragraph 23: There is a missing "s" in "[…] system-wide financial sector tress testing […]" – it should read "stress testing."

Question 5 - Do you have any comment or suggestion on paragraphs 27-28 on "scope" and paragraph 29 on "time horizon"?

We support the objective of defining the scope of application for the Guidelines in a risk-based manner (cf. para. 27), particularly with regard to portfolio, sector, and regional dimensions.
The recommendation to incorporate long-term time horizons (>10 years) as set out in paragraph 29 is theoretically understandable. However, there are significant practical uncertainties in implementation—especially in terms of data availability, model maturity, and methodological robustness.
For many smaller institutions, it is currently very difficult to make reliable forward-looking assessments of ESG risks beyond a five-year time horizon. We therefore advocate for a realistic limitation of the time horizon, particularly for institutions with standardized business models and a regional focus. Any assessment beyond the five-year mark should be conducted only at a qualitative level (cf. para. 15 and EBA/GL/2025/01, 4.2 para. 19).
We would also like to reiterate the importance of focusing initially on climate-related risks, as more advanced methodologies and practical experience already exist in this area. Over time, such developments can be gradually extended to include environmental risks. In contrast, social and governance risks (S&G risks) should be considered only secondarily for the time being, until robust measurement and modelling approaches are available.
Overall, we consider the general direction of the proposals to be sensible, but we strongly recommend a consistent application of the proportionality principle. From the perspective of cost-benefit efficiency, it may even be worth reconsidering whether a more detailed treatment

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of S&G risks is necessary for SNCIs and other non-large institutions. For example, their limited relevance could be sufficiently justified in cases where S&G risks are demonstrably less significant than other risk types.
Such justification might include the following:

- The lower potential for systemic harm from S&G risks compared to environmental risks, which typically affect broader regions (physical risks) or entire sectors (transition risks), whereas S&G risks tend to have more firm-specific effects and are, ceteris paribus, more diversifiable.
- The general lack of clarity regarding the likelihood of significant damage occurring as a result of S&G events becoming public. Historical cases (e.g., violations in textile industry supply chains or aggressive tax strategies in e-commerce and tech firms) suggest that even when such issues have been publicly criticized, consumer behavior was often not significantly affected on a broad scale.

Moreover, with the removal of ESG disclosure obligations for SMEs under the Omnibus initiative, the underlying data basis for meaningful analysis of S&G risks in these institutions is becoming increasingly limited.
Finally, a gradual integration of S&G risks would place a permanent burden on institutions to monitor methodological developments and shifts in prevailing academic and supervisory views on the relevance of S&G risks. Given the relatively low informational yield expected from such efforts, this could place a disproportionate capacity burden on smaller institutions.

Question 6 - Do you have any comment or suggestion on paragraphs 30-33 on scenario design and application?

We support the principle that the selection of ESG stress test scenarios should be based on the specific objectives of the respective exercise (para. 30). Referring to established scientific sources, such as the NGFS scenarios, is a sensible approach—particularly to ensure methodological consistency and legitimacy. At the same time, the application of such scenarios should explicitly respect the proportionality principle. Smaller institutions, in particular, often lack the technical and human resources needed to independently adapt or regionalize complex scientific scenarios.
The inclusion of interconnected risks (simultaneous or successive shocks) and second-round effects (para. 31) is conceptually understandable. However, in practice, these analyses pose major methodological challenges. They require a high level of consistent ESG data, which is often only partially available—and given the implications of the Omnibus initiative, no significant improvement in data availability can be expected in the near term. In this context, we recommend aligning supervisory expectations with the new ESG data environment under Omnibus.
Moreover, the results of such complex, long-term analyses are often qualitative in nature due to their inherent uncertainty—particularly beyond a 10-year horizon—and risk becoming speculative rather than robust.
For long-term ESG scenarios (paras. 32–33), we recommend considering the development of standardized calculation approaches provided by the supervisory authorities. These would improve comparability across institutions while also reducing the implementation burden.

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However, such standardised methodologies must allow sufficient flexibility for institutions to reflect their individual competitive positioning and the expected impact on future net interest margins.
Overall, we recommend that scenario design be closely aligned with data availability, robustness, and practical feasibility for institutions of different sizes. In this regard, pragmatic and standardised methodologies would be highly beneficial.

Question 7 - Do you have any comment or suggestion on paragraphs 34-36 on "top-down vs. bottom-up approaches"?

We would like to highlight the following points in particular:

1. **Explicitly allow top-down approaches**
   For many institutions—especially small and medium-sized ones—a full bottom-up stress test is currently not realistically feasible due to a lack of ESG data, limited modelling capacity, and constrained resources. Therefore, the top-down approach should be explicitly permitted and established as the preferred standard method, particularly for less complex institutions and especially in the context of sector-wide supervisory exercises.

2. **Bottom-up approach only when methodological maturity exists**
   The bottom-up approach may be suitable for large institutions with advanced methodological capabilities. However, it should not be mandatory for less complex institutions as long as an adequate ESG data base and evaluation logic are not in place. This is particularly important given that the ESG data landscape is expected to remain stagnant—if not deteriorate—due to the effects of the Omnibus initiative, which will further slow the development of advanced methodologies.

3. **Stronger emphasis on the benefits of top-down approaches**
   Although top-down approaches may lead to less favourable results for individual institutions due to the neglect of specific characteristics, the Guidelines should place greater emphasis on their advantages—especially the relief they offer for institutions and the enhanced comparability of results. This is particularly important to ensure broad-based, consistent, and practical implementation.

4. **Consider cost-benefit trade-offs**
   There is a general trade-off between less resource-intensive supervisory stress testing and more granular, institution-specific testing that may yield more tailored results and potentially lower capital add-ons. Particularly in the case of resource-intensive bottom-up approaches, it is essential to weigh the implementation burden against the added value for both supervisors and institutions. Excessive effort without meaningful insight may reduce acceptance and perceived value of the stress testing framework.

5. **Enable hybrid and phased approaches**
   We recommend that hybrid approaches—such as supervisory top-down calculations combined with institution-specific qualitative commentary—be explicitly permitted. In addition, a gradual transition from top-down to bottom-up approaches should be considered a viable learning path as ESG expertise and data availability improve over time.

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In general, we support the freedom of choice between top-down and bottom-up approaches. However, we strongly advocate for a clear preference for top-down methodologies in the case of smaller and less complex institutions (and potentially other non-large institutions). What matters most is a methodologically realistic implementation that respects the proportionality principle and enables an efficient execution of stress tests.
Transparency is essential to ensure institutions can meaningfully interpret the results of top-down supervisory stress tests. Therefore, we call on competent authorities to provide institutions with detailed and understandable documentation of the methodology used when conducting top-down stress tests. Afterwards, the results should be explained and analysed in a methodologically sound manner, enabling each institution to independently derive appropriate measures.

Question 8 - Do you have any comment or suggestion on paragraphs 37-40 on "level of granularity"?

We support the differentiated approach to determining the appropriate level of granularity in the implementation of ESG stress tests. Paragraphs 37–40 provide useful guidance on the structuring of data and risk dimensions. The recommendation to strike a balance between complexity and accuracy (para. 37) is explicitly endorsed.
At the same time, it should be noted—especially from the perspective of small and medium-sized institutions—that a comprehensive, multi-dimensional granularity requirement is often not operationally feasible due to limited resources and data availability. When determining granularity assumptions (para. 39), proportionality and the availability of high-quality data should therefore be key considerations.
In particular, due to the stagnation in ESG data availability stemming from the reduced scope of NFRD/CSRD reporting under the Omnibus initiative, institutions are increasingly turning to industry-specific benchmarks, expert estimates, or other permitted alternative approaches (see also EBA Guidelines on the management of ESG risks). In this context, excessively granular requirements may lead to a false sense of precision. Therefore, the Guidelines should formulate granularity requirements in a flexible, risk-based, and practical manner.
It is also important to ensure that only relevant data is collected—i.e., data that feeds directly into risk calculations and has a demonstrable connection to the stress testing framework. To reduce the burden on institutions, supervisory authorities could provide additional support in identifying and sourcing publicly available data for both physical and transition risks. However, data access is only the first step in a longer chain: the quantification standards applied in subsequent stages also need further refinement to ensure the overall reliability and consistency of results.
Additionally, when dealing with large, multi-regional companies, assigning physical risk exposure based on NUTS level 3 locations (e.g., based on headquarters) may not produce meaningful results. In such cases, it may be more appropriate to apply a higher-level geographic aggregation (e.g., national or regional level).
General comment on paragraph 37: There is a missing space in the phrase “oftransition,” which should read “of transition.”

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Question 9 - Do you have any comment or suggestion on paragraphs 41-44 on "balance sheet assumptions"?

We support the approach outlined in paragraphs 41 to 44 to initially conduct ESG stress tests on the basis of static balance sheet assumptions. This ensures a certain degree of comparability and feasibility—particularly for institutions with limited methodological resources. The use of dynamic balance sheet assumptions introduces wide margins for qualitative judgement and, as a result, additional uncertainty. Therefore, such an approach should play a role only in the longer term.
It should also be taken into account that for certain (specialised) institutions with portfolios that are difficult to adjust (e.g., real estate financing), using dynamic assumptions may not offer significant additional insights. In these cases—especially in view of the significant additional effort involved—a static approach may be entirely sufficient.
We also consider it appropriate that the Guidelines refer to the need to align assumptions with the future setup of strategic or risk-based transition plans (synchronisation), as this connection is indeed meaningful at this stage.

Question 10 - Please add here any additional comments on "Title II - Requirements regarding consistency, long-term considerations and common standards for assessment methodologies in stress testing of ESG risks - 4.2 Principles and methodological considerations"

The approach proposed in paragraph 45—to conduct targeted ESG stress testing exercises for specific subsets of institutions—is in line with established supervisory practices in other areas. From a supervisory economics perspective, this is a sensible way to allocate resources efficiently and to address relevant risks in a more differentiated manner.
However, it is important to note that, particularly for smaller (or otherwise non-large) institutions, the implementation burden of such exercises can be very high. Therefore, any additional, specialised stress tests should be conducted only selectively and with careful consideration of the resource demands for institutions. These efforts must always be proportionate to the additional insights expected. For transparency reasons, we suggest that the selection criteria for participating institutions be made public and clearly differentiated by size, complexity, and risk profile.
We welcome the emphasis on maintaining proportionality for both supervisors and institutions. The Guidelines mention the admissibility of simplifications depending on the scope, nature, and complexity of an institution’s activities. In this regard, concrete examples of such simplifications—as well as guidance on the types of institutions for which they may apply—would be very helpful.
With respect to paragraph 49, we would welcome a commitment from supervisory authorities to share the insights gained from their analyses using alternative models with the industry. Supervisors should also disclose relevant details regarding modelling and calibration methodologies. This would allow institutions to incorporate valuable impulses into the design of their own internal stress testing approaches.

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Question 11 - Please add here any comments on "Title II - Requirements regarding consistency, long-term considerations and common standards for assessment methodologies in stress testing of ESG risks - 4.3 Organisational and governance arrangements"

We agree with the comments regarding organisational and governance arrangements.
In addition, we consider it important that the number of supervisory ESG stress testing exercises remains within a manageable scope. In our view, institutions should not be required to conduct supervisory ESG stress tests on an annual basis, especially given that existing supervisory testing frameworks (such as the ECB stress test for significant institutions) already operate on an annual rotating focus.
Since ESG risks are inherently long-term in nature and institutions' exposure to such risks is not expected to change significantly in the short term, the added informational value of highly frequent ESG stress testing exercises would likely be marginal. This perspective is consistent with the EBA Guidelines on the management of ESG risks, which foresee an ESG materiality assessment (risk inventory) being conducted, where appropriate, only every two years.
For reasons of consistency and proportionality, we therefore recommend explicitly embedding a low frequency for ESG stress testing exercises in the Guidelines.

Question 12 - Do you have any additional and/or general comments on the Consultation Paper?

We welcome the initiative by the three European Supervisory Authorities (ESAs) to develop these Guidelines as a means of ensuring the consistent and long-term integration of ESG risks into supervisory stress testing. Clarifying supervisory expectations regarding methodology, organisation, and governance can make a valuable contribution to the harmonisation and further development of ESG stress testing practices.
In this context, it is particularly important to ensure the consistent application of the proportionality principle and to adopt a pragmatic approach to existing data and modelling gaps.
It should also be ensured that supervisory stress tests are not primarily used as a tool for data collection. Only information that directly feeds into risk calculations and has a clear and demonstrable relevance to the stated purpose of the stress test should be requested.
In addition, we recommend that supervisory expectations regarding quantitative models—and their future development trajectories—be adapted to reflect the evolving landscape of ESG data availability. Recent developments, such as the EBA's *No Action Letter* on ESG risk disclosures under CRR III, already point to a growing synchronisation between ESG disclosure obligations and supervisory practices. However, particularly in the context of Pillar II, further adjustments and clarifications remain necessary.

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Question 13 - Do you have any comments on the Impact Assessment?

We support the chosen Option A.3: *"Focus on environmental risks, in particular climate risks, while also providing guidance on the other environmental, social, and governance factors."* Nevertheless, it should be noted that this option—albeit to a lesser extent—also includes nature-related risks, such as biodiversity loss. The transmission channels of nature-related risks are even more complex than those associated with climate risk drivers. As a result, the estimation of their sensitivities to traditional risk categories is still in its infancy. Furthermore, both the data availability and methodological frameworks for nature-related risks are currently at a lower level of maturity. This should be taken into account.
In addition, the Consultation Paper does not appear to provide any specific guidance on social and governance risks. From this, we infer that the inclusion of these risks in stress testing is not yet expected. However, we recommend that such guidance be developed and added in the future.
We also support the proportionality-focused Option B.2: *"Competent authorities will be required to focus on the most material ESG risks."*