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18 April 2024

European Banking Authority (EBA): Consultation on Guidelines on the management of ESG risks

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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?

- **One single transition plan**: WWF calls on EBA to ensure that prudential and non-prudential transition plans will be interoperable, aligned in their targets and metrics, and consistent in their risk assessment. As EBA correctly points out, transition plans under CRD should help institutions in fulfilling other sustainability reporting requirements such as those under CSRD and CSDDD: this necessitates a high level of alignment. To this end, we expect EBA to closely cooperate with regulators in charge of non-prudential transition plans. It is WWF's position that alignment between non-prudential and prudential transition plans can best be achieved by adopting one common transition plan format. With regards to the risk assessment of financial institutions, we note that the methodology of prudential transition plans is not aligned with that of non-prudential transition plans as per the guidelines, despite CSRD also showcasing clear risk management aspects. We call on EBA to not artificially create differentiations between transition plans under CRR-CRD and CSRD / CSDDD and to adopt a common reporting format - while specifying clearly what part is under supervision of CRD-competent regulators, CSRD-competent regulators, CSDDD-competent regulators.

  WWF would like to make the following three recommendations for a comprehensive transition plan format applicable to all companies, covering all sustainability issues and based on the principle of double materiality (see our chart in appendix, articulating the various EU legislative requirements on corporate transition plans):

  1) **CSRD and ESRS as the reporting basis:** The CSRD and sector-agnostic ESRS (E1 climate, E4 biodiversity) should logically form the basis for the transition plan.
  2) **Feeding-in of sustainability impacts and sustainability-related financial risks:** On the sustainability impact side, this should then be enriched by requirements under the CSDDD (entity level) and the EU taxonomy (activity level), as well as the EU ETS (carbon markets) and the Industrial Emissions Directive (IED) on the installation level for companies operating large pollution or carbon intensive assets. For sustainability-related financial risks, the transition plan should also comprise all provisions under CRD and CRD, for banks and insurers respectively.
  3) **Per-chapter reporting for differing supervisory authorities:** Where supervision would fall under the responsibility of different supervisory authorities (competent for CSRD / for CRD or Solvency / for CSDDD), different chapters within the transition plan should facilitate the process. This is notably the case for banks.

- **Double materiality**: WWF calls on EBA to adopt a double materiality approach for managing transition risk by clearly acknowledging that more often than not, institutions with a high level of exposure to environmentally harmful sectors and/or assets are also subject, in turn, to an high level of transition risk. This is in line with EBA's recognition that double materiality "is to an extent indirectly covered in the concept of transition risk, as the negative material impact of exposures to counterparties with a negative material impact on the world will likely translate into transition risks and therefore potentially into financial risk". [1] We call on EBA to clarify the inclusion of double materiality in their definition of transition risk within the guidance, notably in paragraph 17. We remind EBA that spillover effects of the materialization of such transition risk may affect the broader economy, and it should be paramount at this stage to educate and support financial institutions in managing the entirety of their transition risk. We applaud EBA for having previously recognized that "an entity's non-financial materiality ("on the world") has the potential to become financially material, which then brings it under the single materiality category", and would like to point out that a risk management process following this logic would also unavoidably have to include environmental harm. [2]

- **Quality checks by EBA**: We call on EBA to monitor and ensure credibility, quality and ambition of transition plan. Consequently we expect EBA to foresee countermeasures for the case of lacking ambition or non-compliance with prior defined transition targets. We remind EBA that the transition towards carbon neutrality cannot be left to financial institutions alone, and institutions' flexibility cannot supersede the necessity to send a clear signal to the market and all key sectors in the real economy for the green transition. The ECB's third assessment of the progress European banks have made in disclosing climate and environmental risks has shown that the quality of disclosures remains generally low. [3] Should transition targets not be met, EBA must foresee adequate escalation procedures to ensure alignment. [4]

- **Engagement and divestment (paragraph 15):** WWF partly disagrees with EBA's statement in paragraph 15 that the objective of transition plans does not lie in divestment. A more nuanced approach on divestment is necessary, as it can well be very complementary to engagement. Engagement and investment should be seen in a much more dynamic way, as the two sides of the same coin. Indeed, if engagement with clients/counterparties does not deliver, escalation procedures are required, which can end up with divestment as a last resort option (as a matter of fact, EBA mentions "last resort cessation of the relationship when continuation is considered incompatible with the institution's planning and risk appetite", in Pararaph 103). Problematically EBA seems to implicitly assume that engagement with clients/counterparties is systematically successful. Our experience, having exchanged with a large number of banks and investors in the last 20 years, is that engagement is demanding, time- and expertise-consuming, difficult and slow, and often not reaching its targets (assuming it has clear and measurable targets in the first place, which is not often the case). Institutions almost never have the capacity required to engage meaningfully with all the relevant counterparties:what we heard in terms of best practice was engaging with 20% of companies in high impact sectors, which is very low.
The above is why a growing number of banks and investors divest from a growing number of high carbon or polluting companies which, to make it simple, are not WILLING to transition in a meaningful and timely way. In addition, divestment can send a market signal which is necessary to engage with companies. In addition, divestment can take place for a few years only, putting pressure on a counterparty until it accepts to meaningfully engage on its transition: in such a case re-engaging can become relevant again. Finally, divesting/ending financial support may be needed for banks to mitigate risks related to environmental harmful companies refusing to transition. This is notably the case for the fossil fuel sector. [3]

- **Growing financial risks for the fossil fuel sector:** a specific high-carbon sector, fossil fuels, will irrefutably be unable to transition - as made clear and explicit by the

International Energy Agency in its 1.5°C scenario since 2021. [5] In addition, a high carbon impact will increasingly be correlated with a high transition risk, given the growing number of climate policies and requirements globally, the developments and increase of carbon markets and carbon prices, the rapid development of zero carbon, competitive, renewable alternatives leading to fossil fuel demand destruction, etc. Half of global fossil fuel assets could become stranded assets by 2036 under net zero pathways: this represents a high risk for financial institutions. [6] To account for this clear body of evidence pointing towards the high-risk nature of fossil fuels, we call on EBA to acknowledge this risk by clarifying that, most urgently, ceasing all support to the development of NEW fossil projects and, secondly, phasing out existing fossil fuel assets (coal, oil, gas) within set timeframes have become necessary banking policies to mitigate the growing financial related to the fossil fuel sector specifically.

Sources:

[1] https://www.eba.europa.eu/eba-response/37126?destination=/publications-and-media/events/discussion-paper-role-environmental-risk-prudential-framework

[2] https://www.eba.europa.eu/eba-response/37126?destination=/publications-and-media/events/discussion-paper-role-environmental-risk-prudential-framework

[3] https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.theimportanceofbeingtransparent042023~1f0f816b85.en.pdf

[4] https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op334~4ddaea487d.en.pdf

[5] https://www.iea.org/reports/net-zero-by-2050

[6] https://www.nature.com/articles/s41560-021-00934-2

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

- **Need for specification:** Several points laid out in the draft guidelines would require further specification and granularity to ensure applicability and ease of implementation. More concretely, we ask EBA to clarify the following:
    - Materiality assessment: We see a need to further specify what such an assessment would consist in, as a number of different methodologies with varying levels of precision are currently available in the market. As materiality is the baseline for further treatment, we recommend a more granular definition of what such a materiality assessment must entail. It should be explored by EBA whether the materiality assessments required under CSRD (double materiality) and CSRDD (impact materiality) can be combined or even merged with the materiality assessment under CRD: this would substantially reduce the duplication and cost, while likely leading to a more robust and consistent outcome (synergies between the financial risk and sustainability impact materialities, as we explained in Question 1, instead of 'silo thinking' potentially leading to inconsistent results).

- Close the ‘comply or explain’ loophole: We observe a high risk in allowing for a loophole for small and non-complex institutions (SNCI), and urge EBA to to close this gap, with a look to the “comply or explain” loophole present in CSRD which drastically reduces the directive’s impact.

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.

- **One single transition plan:** As laid out in our answer to question 1, we once again take this opportunity to call on EBA to provide for one single transition plan format.

- **Nature-related risk:** We applaud EBA for taking note of the importance of regulating biodiversity risk. We see strong feedback loops and interacting tipping points between climate and biodiversity, and believe that a common treatment of the two is paramount. We therefore call on EBA to not wait in publishing recommendations on biodiversity risk management, and rather aim for the inclusion of nature-related risks in the climate-focused prudential transition plans by identifying the most material nature-related risks, prescribing specific nature-related targets, laying out clear mitigation actions and strategies to meet these targets, and including escalation procedure should targets not be met. [1]. In addition, water-related risks also come into play in close connection with climate and biodiversity risks (notably for freshwater ecosystems) so should be included.

- **Cross-cutting risk of certain sectors:** We call on EBA to recognize particularly high-risk sectors such as the fossil fuel sector for their complex cross-cutting impact on various types of ESG risks. Fossil fuels in particular have shown their negative repercussions on climate and biodiversity, but also on social issues by affecting local communities and indigenous peoples both directly through harmful environmental emissions, and indirectly by causing climate change which disproportionately affects the have-nots. Finally, several fossil fuel projects have fueled governance issues like corruption and tax evasion. [2]

- **Double materiality:** We applaud EBA for pointing out and recognizing double materiality of ESG risks, and the financial impact which may result from the environmental and social materiality of an institution. We call on EBA to act on this assessment by incorporating a double materiality approach throughout their guidelines.

- **Articulation of E versus S**: this is very relevant as well. The research from the initiative 1 in 1000 from Theia Finance and the Oxford University finds that current climate stress-tests face a number of challenges, which means they under-evaluate the risks, notably they typically do not consider the additional effects of climate tipping points (physical or social) and focus exclusively on direct climate impacts and do not take into account the potential social or ecosystem shocks that may arise as a result of climate change. Integrating social, ecosystem and climate tipping points into stress-tests could generate long-term negative growth rates. The findings suggest that climate tipping points, ecosystem (including biodiversity) decline, and social risks have the potential to amplify the financial losses in equity markets from climate change by a factor of 2.5-3.5x. [3]

Sources:

[1] https://sustainablefinancelab.nl/wp-content/uploads/sites/334/2024/01/Finding-a-way-with-nature.pdf

[2] https://www.eesi.org/papers/view/fact-sheet-climate-environmental-and-health-impacts-of-fossil-fuels-2021

[3] https://www.1in1000.com/latest

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

- **Double materiality:** We remind EBA that according to their assessment in paragraph 26, negative impact on environmental and social factors can in turn translate into financial risk on institutions. This is a clear indication that double materiality must be adopted in the materiality assessment, taking into account environmental and social impacts of an institution, as well as feedback loops on the financial risk for the institution.
- **Time horizon:** We call on EBA to increase the long-term time horizon of the materiality assessment to 20 years, as some sustainability challenges have major implications well below 10 years.
- **Need for specification**: We observe a need for a more granular specification of the ‘significance of activities, services and products’, as this appears rather arbitrary and should ideally be defined through measurable, quantifiable indicators, such as the % of a company’s topline.

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.

- **Paragraph 16:** we support the general EBA approach in the paragraph 16, which is consistent with the climate benchmark regulation. However, this wide approach should be completed by a more targeted focus on a few critical sectors which are the main driver of climate change: coal, oil, gas. This is critical because these sectors alone are influential enough to derail the Paris Agreement and the EU climate law. In addition, this will ensure more consistency with the CSRD which explicitly requires companies to disclosure their exposure to coal, oil, gas sectors. We wil provide more concrete recommendations in Questions below.

- **Paragraph 17: Use of the EU taxonomy criteria:** While WWF applauds EBA for proposing a way to use the EU Taxonomy in these guidelines and improve the consistency of the EU sustainable finance framework, problematically it is not complete:
  (1) it does not specify what a "high level" of taxonomy alignment is exactly: a figure is required to make it objective and measurable;
  (2) even more importantly, whatever figure is used to define this 'high level', this taxonomy criteria alone will not be enough as long as it does not reach 100% - because it means that the sector could still include activities that do NOT comply with the Do No Significant Harm (DNSH) criteria - hence by definition they are environmentally harmful. More often than not, environmentally harmful activities can lead to transition risks, as made clear by EBA in Paragraph 26. So <u>the issue of environmentally harmful activities should be taken into account in a risk-based approach, as a more relevant proxy. There is a concrete way to do this with the EU taxonomy: using the DNSH taxonomy criteria</u>.
- Example: exposure to the power generation sector is 60% taxonomy-aligned: this could be perceived as a 'high level' of taxonomy alignment; however it could mean that 40% of this power generation sector exposure is environmentally harmful, if it is focused on coal-fired plants and/or not taxonomy-aligned gas-fired plants. These coal-fired plants and not taxonomy-aligned gas-fired plants can create substantial financial risks, that should not be overlooked.
- Concretely, to create a much more robust proxy for non-materiality, <u>the criteria of 'high level' of green taxonomy alignment must therefore be completed by a SECOND taxonomy criteria: alignment of 100% of the sector/activity exposure to DNSH taxonomy criteria, ensuring that the sector is not environmentally harmful</u>. Arguably, activities which comply with DNSH taxonomy criteria (i.e. are not environmentally harmful) face lower transition risks than harmful activities: for example in the power sector, renewable projects face lower transition risks (if at all) than coal plants.
- Importantly, the alignment assessment of activities with DNHS taxonomy criteria is already done by companies and banks at technical level, as it is already required for green taxonomy alignment (which means alignment with Substantial contribution criteria AND alignment with DSNH criteria). So this does not represent an additional burden, and 'only' needs to be disclosed by the banks which wish to have a derogation from paragraph 16 on the materiality assessment for transition risks for some sectors (bearing in mind that it does not work for physical risks, as made clear by EBA).
- Right now, it is not mandatory for companies and banks to disclose this DNSH compliance data separately. If banks want to produce this data to benefit from the derogation from paragraph 16 they will need to obtain the data from their relevant clients. However, this data could be disclosed in a mandatory way if the Article 8 Delegated Act on taxonomy reporting by companies is amended by the Commission in order to require it. The Commission confirmed that this Act will be revised: this could happen as soon as 2025; it will be a very important opportunity to facilitate the use of the EU Taxonomy in Paragraph 17 and in the EBA guidelines more generally. WWF therefore calls on EBA to ask the Commission to include this disclosure requirement in the revision of the Article 8 Delegated Act on taxonomy reporting by companies.
- Our recommendation is focused only on taxonomy-eligible activities. For other activities the EU taxonomy criteria cannot apply.

- **Integrate nature-related risk requirements:** We believe that the guidelines should provide similar requirements for the materiality assessment of other ESG risks, most notably nature-related risks, as their financial impact on individual banks has been well-documented. We remind EBA that, while the total cost of GHG emissions is set to reach USD 1.7 trillion annually, the cost from biodiversity loss is estimated around USD 2-4.5 trillion. [1] To avert systemic risks, it is essential that EBA addresses this risk on the financial sector early on by fully integrating nature-related risks in the prudential transition plan.

- **Ensure CSRD alignment:** As companies will have to consider their material risk and impact on climate and ESG under CSRD obligations, we ask EBA to use this opportunity to connect these two parts of the transition plan by ensuring that the results of the materiality assessment are consistent across both disclosure requirements, which should be done by way of one single transition plan, as laid out in our answer to question 1.

Sources:

[1]
https://www.dnb.nl/media/cy2p51gx/biodiversity-opportunities-risks-for-the-financial-sector.pdf

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

- **Anticipating risks:** WWF is generally aligned with the data processes proposed by EBA. Gathering ESG data is critical in anticipating risk early on, as demonstrated by the ECB's climate stress test from 2022 highlighting a potential insolvencies wave due to energy-inefficient homes. Lack of data may prevent banks from fully understanding the magnitude of their mortgage portfolio risk exposure, emphasizing the need for robust data collection. [1]
- **Filling data gaps:** We agree with the use of estimates and proxies, and third-party services for gaining access to ESG data, as this would allow a reduced burden for companies. However, in the medium term, EBA should ensure the phase-out of proxies to help fill the aforementioned data gap, so the framing in Paragraph 25 is relevant, but EBA should specify the exact timeline for doing so: we recommend 3 to 5 years maximum. We would like to particularly highlight the need to address energy efficiency data gaps, which have been hindering the monitoring of achieving EU targets. With over a quarter of EU households having mortgages, banks could significantly contribute to filling this data gap. [2] However, this channel is currently underused, with 65% of banks not collecting Energy Performance Certificates (EPCs), indicating a need for improvement. [3] EBA must ensure that energy efficiency information from clients is collected at relevant moments during the lending process (loan origination, loan refinancing and renegotiation, loan monitoring process) to bridge the existing data gap. This could be incorporated into the review of the Mortgage Credit Directive. Moreover, mortgage portfolio standards have been introduced in the Energy Performance of Buildings Directive recast. These standards will incentivize banks to collect data, analyse their portfolios, and enhance energy efficiency. They should be supported and advocated for greater mandatory adoption.

Lastly, to facilitate improved monitoring of energy efficiency data within the banking sector, WWF supports the EBA opinion on green loans and mortgages from 2023, which emphasises the necessity for a harmonised definition of green loans and mortgages: we believe that the Mortgage Credit Directive - that the Commission needs to revise - is a relevant EU law to include such definition, and call on EBA to recommend the Commission to review it.

- **Staff training:** WWF is in full support of EBA's recommendations regarding comprehensive staff trainings for banks, which will equip relevant personnel with the necessary skills and knowledge to effectively gather ESG data, emphasize the importance of energy conversations, and actively incentivize renovations, among others.
- **On specific indicators in paragraph 23:**

Consultation paper	WWF suggestion
i. Geographical location of key assets and exposure to environmental hazards	WWF applauds the inclusion of asset level data, which will become increasingly important to identify and manage climate-related risks, with climate damages on the rise
ii. current and forecasted greenhouse gas (GHG) scope 1, 2 and 3 emissions in absolute and/or intensity such as per million-euro revenues or per units of production,	We support Scope 1-3 inclusion. However, intensity metrics per million-euro revenues or per units of production cannot be sufficient alone as they can mask an increase of total emissions, hence absolute emissions are a must. Both metrics are necessary, so they should not be framed as "and/or" but as "AND".
iii. material impacts on the environment, including climate change and biodiversity, and related mitigation or adaptation policies,	We welcome the mention of biodiversity impacts, and encourage EBA to specify the necessity to collect nature-related risk data. We also encourage EBA to more prescriptively define the materiality of the impacts, as this should not be an arbitrary process solely up to implementing companies.
iv. dependency on fossil fuels, either in terms of economic factor inputs or revenue base	Include the investment (capex) in fossil fuels, split between investment in existing infrastructures and new ones, and operational expenses (opex) related to fossil fuel consumption and/or infrastructures for Scopes 1-3. Differentiate coal, oil, gas as they come with very different markets and risks, and different phase out deadlines in 1.5°C climate pathways (e.g. IEA 1.5°).
v. energy and water demand and/or consumption, either in terms of economic factor inputs or revenue base	"Energy and water demand and/or consumption" should be both monitored in terms of economic factor inputs AND the revenue base.
vi. energy performance certificates and score in kWh/m² for real estate exposures	We appreciate these data points, as this already allows for a tracking process. However, we need more precise metrics, as as of now energy performance certificates (EPCs) are not standardized.
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,	We disagree that this should only apply to non-financial corporates, as it is not apparent why this distinction should be made here.

where applicable.	We also call on EBA to further define the term "adaptive capacity".

Sources:

[1] https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.climate_stress_test_report.20220708~2e3cc0999f.en.pdf

[2] https://www.climatestrategy.com/en/informe_27.php

[3] https://www.positivemoney.eu/2022/07/ecb-climate-stress-test-energy-efficiency/

Question 7: Do you have comments on the measurement and assessment principles?

- **The use of sector-specific pathways for key high-carbon / polluting sectors should become a must.** While portfolio alignment tools are useful to provide the 'big picture', they cannot provide sufficient granularity alone to inform and shift the decision-making process at sector and asset level. For that purpose, sector-specific analysis is necessary for the key sectors (starting with high carbon and high environmental impact sectors), using in particular sector-specific decarbonisation pathways wherever available.
- **Sector-based methodology**: In turn, we believe that the EBA should complement the 3 proposed methodologies (exposure-based, portfolio-based, scenario-based) and define a forth one: sector-based, or combine it explicitly with the portfolio-based methodology. Indeed, a key entry point for banks is sector-specific finance (mortgages for buildings; infrastructure finance; energy finance; shipping finance, etc). The sector-level should be reflected much more clearly as it is a critical level for banks to take strategic action. For example, a growing number of banks are adopting sector-specific policies on high risks sectors, typically coal [1], oil&gas [2], increasingly other high carbon sectors (automotive, steel, cement, aviation, shipping, etc.) and are now starting to add policies on biodiversity or water which address notably agriculture.
- **Precautionary approach:** WWF urges EBA to adequately address and identify climate and nature-related risks by adopting a precautionary approach. This would entail the reliance on worst case scenarios for assessing risks, and prioritizing these high-risk sectors in the mitigation timeline.
- **Double materiality:** We once again call on EBA to fully account for double materiality, which they have previously recognized in paragraph 26 of the underlying consultation.
- **Asset-level assessment:** See our previous answer. We call on EBA to integrate an asset-level approach for activities that bear a particularly high transition risk, such as fossil fuel extraction facilities, or fossil-fuel fired power plants.
- **Time horizon:** Given that transition plans are aiming for net zero emissions by 2050, we believe it is essential to increase the time horizon of the materiality assessment to 20 years to go way beyond the year 2035 and capture the next key milestone after 2030, which is 2040.

Sources:

[1] See the coal policy tool from ReclaimFinance: https://coalpolicytool.org/. It assesses the quality and robustness of coal policies from 505 financial institutions globally, in a very granular way, identifying laggards and best practice.

[2] See the oil& gas policy tracker from ReclaimFinance: https://oilgaspolicytracker.org/. It assesses the quality and robustness of oil&gas policies from 441 financial institutions globally, in a very granular way, identifying laggards and best practice.

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

- **On- and off-balance sheet:** We applaud EBA for including both on- and off-balance sheet activities in their assessment, as this allows for a holistic picture of an institution's risk exposure. It would be significantly incomplete by focusing only on on-balance sheet.
- **Need for granularity:** We see the need for a higher granularity of the guidelines with a higher level of technicality, particularly for the following points:
    - Push for default risk integration
    - Push for collateral valuation
    - Credit scoring
- **Asset-level risk:** We applaud the recognition of asset-level risk, which in our view should also encompass asset-level transition risk. For the case of fossil fuel assets in particular, the transition risk of individual assets can be considerable (stranded asset risk); it is also the case for fossil fuel-fired power plants.
- **Social and governance due diligence:** WWF is in full support to further enhance the social and governance due diligence aspects of the guidance.
- **Quality of transition plans:** We urge EBA to specify that transition plans should be assessed as to, notably, their credibility and robustness to mitigate transition risks.

Question 9: Do you have comments on the portfolio alignment 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.

- **Sector-based methodology: need to specify the portfolio approach or split it in two:** while portfolio alignment tools can provide a useful 'big picture' [1], they should never be used alone as they do not provide sufficient granularity for decision making at sector or asset level. In addition, they can be used in a counter-productive way, for example by institutions to favour climate-irrelevant sectors such as pharmaceuticals and technology in order to decarbonise their portfolio (wrongly assuming that these sectors are 'low carbon' while they are simply not material climate-wise). As stated in our response to Question 7, we therefore recommend EBA to either make explicit that portfolio-based methodologies must include sector-based methodologies, or add a fourth level with sector-based methodologies.

- In turn, EBA should **require the use of sector-specific pathways for key high-carbon / polluting sectors** wherever such pathways are available, building on the sectoral pathways and targets laid out in the IEA NZE scenario.

- We call on EBA to **more concretely specify fossil fuel-related sectoral targets**, which according to the 1.5°C IEA scenario require an immediate full stop of investments in new coal, oil and gas projects globally.

- **IEA NZE scenario:** WWF is in full support of basing all portfolio alignment methodologies on the IEA net zero scenario (i.e. 1.5°C), which has been widely adopted by financial institutions. We recommend EBA to take a more prescriptive stance on the use of this specific scenario, as other scenarios are drastically varying and cannot provide a comparable baseline. Should EBA opt for a different scenario, we call on EBA to provide clear guidance specifying that the methodology must be based on a 1.5° scenario with no or low overshoot, limiting negative emissions.

- **Inclusion of fossil fuel production in paragraph 36**: Surprisingly, the fossil fuel upstream sector (i.e. fossil fuel production: prospection-exploration, oil&gas drilling, coal mining) is not included in the list of the paragraph 36, while it is THE most problematic sector climate-wise, and the IEA has done a lot of work on it and its alternatives. We urge EBA to include it.

- **Nature-related risk:** WWF calls on EBA to integrate nature-related factors in the outlined methodologies. We remind EBA that, while the total cost of GHG emissions is set to reach USD 1.7 trillion annually, the cost from biodiversity loss is estimated around USD 2-4.5 trillion. [2] To avert systemic risks, it is essential that EBA addresses this risk on the financial sector early on by fully integrating nature-related risks in the prudential transition plan.
  We support the addition of methods to identify natural capital dependencies in paragraph 38. There are already tools available, including the Biodiversity Risk Filer and the Water Risk Filer developed by WWF. [3]

Sources:

[1] See for example the temperature rating methodology from WWF and CDP: https://www.cdp.net/en/investor/temperature-ratings/cdp-wwf-temperature-ratings-methodology. The 2020 methodology is being reviewed in 2024 to update and strengthen it.

[2] https://www.dnb.nl/media/cy2p51gx/biodiversity-opportunities-risks-for-the-financial-sector.pdf

[3] https://riskfilter.org/biodiversity/home#:~:text=BIODVERSITY%20RISK%20FILTER%3F-,The%20WWF%20Biodiversity%20Risk%20Filter%20is%20a%20free%20online%20tool,operations%2C%20value%20chain%20and%20investments.

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

- **Time horizon:** Given that transition plans are aiming for net zero emissions by 2050, we believe it is essential to increase the time horizon of the materiality assessment to 20 years to go way beyond the year 2035 and capture the next key milestone after 2030, which is 2040.
- **Need for specification:** We welcome EBA encouraging financial institutions to increase their engagement efforts with their holdings. However, in the draft, we are

observing a lack of clear, time-bound objectives which could be binding for institutions, as well as reference to an escalation process to be applied should the engagement activities not align with these objectives. We encourage EBA to fill this gap.

- **Fossil fuel sectoral restrictions:** Given the previously laid out high level of transition risk present in the fossil fuel sector, we call on EBA to underline this by introducing sectoral restrictions specifically for holdings active in the fossil fuel sector.
- **Biodiversity / nature transition:** We call on EBA to integrate nature and biodiversity transition to the same extent as climate concerns within the prudential transition plan. We see strong feedback loops and interacting tipping points between climate and biodiversity, and believe that a common treatment of the two is paramount. We therefore call on EBA to rather aim for the inclusion of nature-related risks in the climate-focused prudential transition plans by identifying the most material nature-related risks, prescribing specific nature-related targets, laying out clear mitigation actions and strategies to meet these targets, and including escalation procedure should targets not be met. [1]
- **Need for specification:** We call on EBA to provide more granular definitions on the following points on counterparties engagement mentioned in paragraph 42 a):
    - i: Define most important and most critical counterparties in quantitative and qualitative terms.
    - ii: Define large counterparties and provide guidance on how the soundness should be assessed.
    - iii: Define large counterparties and provide further guidance on how to assess processes, and define escalation mechanisms where greenwashing risk is not mitigated.
    - iv: Provide further guidance on how counterparties should be encouraged as to their ESG risk mitigation and disclosure
    - In addition, we recommend a new point vi on divestment when needed as a last resort strategy, if the escalation process (above mentioned in point iii) is deemed to fail (see also our response to Question 1 on engagement and divestment). As a matter of fact, EBA mentions “last resort cessation of the relationship when continuation is considered incompatible with the institution’s planning and risk appetite”, in Pararaph 103.

- **Need of EBA guidelines on institutions’ engagement with counterparties:** for the paragraph 42 a), we strongly recommend EBA to develop such guidelines, as a follow up of these guidelines (ie in the course of 2025). Indeed, the points (a) to (d) are not detailed enough and will very likely be difficult to implement and to monitor.

    For example, it is not specified at all what the ‘soundness’ of counterparties’ transition plans should mean (ii) and how they should be assessed by institutions. For this critical issue of transition plan assessment, EBA should build on the “ATP-COL” global multi-stakeholder initiative, led by the World Benchmarking Alliance [2]. It is gathering 90 transition plan experts from 40 stakeholders across various geographies and is preparing a detailed transition plan assessment guidance that will be published in July 2024.

    See also our response to Question 1 on engagement and divestment: What engagement means exactly should be specified by EBA, building on best practice.

Sources:

[1]
https://sustainablefinancelab.nl/wp-content/uploads/sites/334/2024/01/Finding-a-way-with-nature.pdf

[2]
https://www.worldbenchmarkingalliance.org/news/assessing-companies-transition-plans-collective-atp-col/

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

- **Time horizon:** Given that transition plans are aiming for net zero emissions by 2050, we believe it is essential to increase the time horizon of the materiality assessment to 20 years to go way beyond the year 2035 and capture the next key milestone after 2030, which is 2040.

- See our response to Question 7 on **portfolio alignment methodologies** in paragraph 44: we recommend to specify that it includes sector-based methodologies.

- **Need for divestment as last resort:** WWF notes that no mention was made of divestment from most environmentally harmful holdings, nor the need to push the transition within these sectors. Both are necessary. It should be acknowledged that not all companies are willing to transition in a timely way, hence divestment as the last resort option of an escalation process can be necessary to ensure consistency with climate commitments and/or to manage climate-related risks. As a matter of fact, EBA mentions "last resort cessation of the relationship when continuation is considered incompatible with the institution's planning and risk appetite", in Pararaph 103. In such a case, divestment can be a useful tool if coupled with strong public signalling (as evidenced e.g. in the coal sector in the EU). See also our response to Question 1 on this issue.
- We are misaligned with this interpretation of the scope of prudential transition plans, as mitigation cannot be provided through increased insurance alone but rather should happen at the portfolio composition level. We remind EBA that Axa's CEO has publicly and repeatedly stated that "A 2° world might be insurable, a 4°C world certainly would not be", [1] showcasing that insurance simply cannot be the only climate risk mitigation measure.

- **Need for phase out plans for decommissioning individual assets and targeted sectors:** In particular, the fossil fuel sector (coal, oil, gas) is not in line with any 1.5° pathway, which means that large numbers of fossil fuel assets will be decommissioned in the coming years and decades. This presents an important financial risk to institutions, as companies whose business models are mostly based on fossil fuel extraction and production will be deeply affected in their revenues and financial positions. This transition risk should be further specified, together with the need to create targeted phase-out plans for individual assets.

Sources:

[1] https://www.forbes.com/sites/dinamedland/2015/05/26/a-2c-world-might-be-insurable-a-4c-world-certainly-would-not-be/

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

- **Monitoring of off-balance sheet activities:** WWF fully supports EBA for recognizing both on- and off-balance sheet activities in their assessment. Consequently, we recommend EBA to provide further guidance on the monitoring of said off-balance sheet activities and emissions facilitated for instance through underwriting and bonds.
- **Risk appetite:** WWF takes this opportunity to remind EBA that the management of ESG risks is not solely subject to financial institutions' risk appetite, as they can affect the wider economy and are directly connected to a risk of systemic shocks and spillovers.
- **Consistency with non-prudential transition plans**: WWF encourages EBA to push for further consistency with any other climate commitments of financial institutions. EBA should specify that in particular allocation and sector limits communicated in non-prudential transition plans are to be aligned with climate targets and must not interfere with the implementation of the prudential transition plan.

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

- **Need for strategic alignment:** Paragraphs 53 and 54 seem to indicate that EBA is viewing prudential transition plans as a mere compliance and risk function. In the industry, it is common knowledge that these units are typically not involved in strategic decision-making, and we call on EBA to lift this issue to its appropriate level, namely within the CEO and CFO functions. Only doing so will allow prudential transition plans to reach strategic importance, which is in line with EBA's intention stated throughout the guidance.

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

NA

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

Higher level of granularity: The section on credit risk should be more prescriptive and detailed on ESG risk mitigation. High-impact sectors, notably fossil fuels, should be focused on for mitigation measures.

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?

NA

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

- **Monitoring of off-balance sheet activities:** WWF fully supports EBA for recognizing both on- and off-balance sheet activities in their assessment. Consequently, we recommend EBA to provide further guidance on the monitoring of said off-balance sheet activities and emissions facilitated for instance through underwriting and bonds.

- **Monitoring of investments in fossil fuels and high impact activities:** WWF calls on EBA to urge financial institutions to document and monitor the monetary investment in, as well as the % of revenues received from high climate impact sectors. This can be done by specifying in particular the % of revenues from each fossil fuel, namely coal, oil, gas in paragraph 72 (b).

- **Need of EBA guidelines on institutions' engagement with counterparties:** In paragraph 72 (e), EBA does not specify what engagement on ESG risks with counterparties means. It is qualitative and vague, hence will be difficult to implement and to monitor. As developed in our response to Question 10, we recommend EBA to guidelines on institutions' engagement with counterparties in 2025, as a follow up of these guidelines.

- **Refer to DNSH taxonomy criteria**: In paragraph 72 (f), EBA asks for the "shares of exposures detrimental to the achievement" of the EU taxonomy environmental objectives. Importantly, it should add that this can be robustly done by using DNSH criteria from the EU taxonomy: institutions should ask counterparties to disclose their DNSH compliance data separately - as we develop in Question 5. Currently this information is not disclosed mandatorily so institutions need to ask counterparties for it. But it could change: this data could be disclosed in a mandatory way if the Article 8 Delegated Act on taxonomy reporting by companies is amended by the Commission in order to require it. The Commission confirmed that this Act will be revised: this could happen as soon as 2025. WWF therefore calls on EBA to ask the Commission to include this disclosure requirement in the revision of the Article 8 Delegated Act on taxonomy reporting by companies.

- **Add a new indicator f': sustainable power supply to fossil fuel financing ratio:** The IEA found that for banks to support the energy transition in a manner that is aligned with its 1.5°C scenario, they must adopt as soon as possible policies and targets in order to achieve a 6:1 financing ratio by 2030 in sustainable energy supply compared to fossil fuels [1]. This means that for every euro spent on fossil fuels, six should be spent on sustainable energy supply - mainly for sustainable power generation, transmission and distribution. This ratio is critical to assess how well institutions are transitioning their energy support over years. In Paragraph 80 EBA states: "having a clear understanding of internal capital needs consistent with the transition planning process": we think the 6:1 ratio will be helpful in that regard, hence we urge EBA to add it.

- **Add water-stressed areas**: in paragraph 72 (h), EBA mentions flood risk and wilfire risk. WWF recommends to add "water-stressed areas", as the two issues of water scarcity and/or water pollution are worsening fast, and becoming significant sources of risk (bearing in mind, in addition, that these areas are widening in perimeter because of climate change).

Source:

[1] https://beyondfossilfuels.org/2024/02/13/6-to-1-financing-ratio-by-2030/

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?

- **Red flag indicators:** WWF is in full alignment with Reclaim Finance's recent report on Corporate Climate Transition Plans [1], which brings forth a number of indicators pointing towards gaps in transition plans. We encourage EBA to take a more prescriptive approach on the format and content of transition plans and consider more stringent principles in their transition plan assessment in line with CSRD / ESRS reporting, and include the following:

- **Fossil fuels and other environmentally harmful activities:** We call on EBA to adopt more stringent principles and for the most environmentally harmful activities, notably fossil fuels (coal, oil, gas). We expect EBA to address the elevated risk of stranded risks related to fossil fuels by urging institutions to end lending and investments in NEW fossil fuel projects immediately - as urged by the IEA since 2021 in its 1.5°C scenario - and to set up phase-out plans for existing fossil fuel assets, with differentiated exit timelines depending on the fuel and geography (based again on the IEA 1.5°C scenario):
    - coal exit by 2030 in EU/OECD countries, and by 2040 elsewhere
    - gas & oil exit by 2050 at the latest globally, and sooner in the EU/OECD.

- **Decarbonization targets:** We call on EBA to adopt a more prescriptive approach on decarbonization targets. These should cover all GHG emissions of scope 1-3 emissions in the medium- and long term across all geographies of activity. We encourage EBA to adopt a clearer stance on the targets' timeline, with targets for 2025, 2030, 2035, and an absolute net zero target of 2050. These emission reduction targets should be based on absolute reductions. EBA should be careful not to allow institutions to use carbon offsets which have a very problematic track record in terms of credibility and can be of very low quality, and should not be included in the reduction targets. [2, 3]

- **Decarbonization strategy:** We call on EBA to refer to Reclaim Finance's recent report on Corporate Climate Transition Plans to adopt more precise and guiding principles on coherent decarbonization strategies. We support in particular the following asks on financial targets:
    - Disclosure of revenues, Opex, and Capex into carbon intensive sectors (notably coal, oil, gas: this date is required in CSRD);
    - Target setting for investments and lending to climate solutions, in line with the EU taxonomy, and for the reduction of lending activities to carbon intensive activities (in terms of Capex, and Opex and absolute revenue % where available).

- **Engagement strategies:** We ask EBA to more clearly define the expected engagement strategy with holdings, which should detail lobbying activities all across the holdings' value chain. [1] Please also refer to our response to Question 10 on the need of EBA guidelines on institutions' engagement with counterparties.
- **Paragraph 75:** Where EBA mentions that "more granular information" is needed, it should mention asset level data - which is increasingly to assess risks.

- **Review** (paragraph 82): EBA should specify that the review of the business strategy should, in any case, happen at least every 3-5 years.

Sources:

[1]
https://reclaimfinance.org/site/wp-content/uploads/2024/01/Report-Climate-Transition-Plan-Reclaim-Finance-January-2024.pdf

[2]
https://www.zeit.de/wirtschaft/2023-01/co2-certificates-fraud-emissions-trading-climate-protection-english

[3]
https://www.theguardian.com/environment/2023/jan/18/revealed-forest-carbon-offsets-biggest-provider-worthless-verra-aoe

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

- **Strategic responsibility:** As previously mentioned, WWF calls on EBA to ensure that transition plan implementation will find consideration at strategy defining levels within institutions. We believe that monitoring thereof should happen at board level to ensure that the issue is giving sufficient weight in internal decision-making.
- **Institutional capacity:** We call on EBA to more clearly define their demand for 'sufficient capacity, expertise and resources' for transition plan development and implementation, with quantifiable targets on the monetary implications and team capacity building.

- **Transition plan review:** We call on EBA to provide a schematic review process including steps to take and time-bound goals.
- **Need for EBA guidelines on institutions' engagement with counterparties:** for the paragraph 86 (a), we recommend EBA to develop such guidelines. We already raised this issue in our response to Question 10. Indeed, "establishing a dialogue with counterparties" is not granular enough hence will be hard to implement and monitor; it also does not mean that any positive outcome will follow: a real engagement strategy is necessary for strategic and fruitful dialogue with counterparties on their transition plans. For the critical issue of transition plan assessment, EBA should build on the "ATP-COL" global multi-stakeholder initiative, led by the World Benchmarking Alliance [1]. It is gathering 90 transition plan experts from 40 stakeholders across various geographies and is preparing a detailed transition plan assessment guidance that will be published in July 2024.

Source:
[1]: https://www.worldbenchmarkingalliance.org/news/assessing-companies-transition-plans-collective-atp-col/

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?

- **Paragraph 93:** WWF supports the need for a timely escalation procedure in case of significant deviations, as well as regular projections to assess the institutions' ability to achieve their targets.

- **Paragraph 94:**
  - In general, the metrics are not specific enough, and not complete. It is quite problematic as institutions' transition plans on such a basis may be very hard to compare, and not necessarily achieving their purpose. More specifications are needed from EBA. We encourage EBA to take a more prescriptive approach on the format and content of transition plans.
  - Completing point (c), capex metrics should be added for high risk sectors, starting with coal, oil, gas.
  - An indicator should be added about whether institutions are using the EU taxonomy in their engagement with counterparties, asking counterparties to set taxonomy alignment targets in a time-bound way.
  - As raised above, on- and off-balance sheet information is critical. This calls for an indicator to calculating not only financed emissions (through loans) but also facilitated emissions (through banking services, e.g. bond underwriting). Otherwise, a huge chunk of banks' influence will be missing - which can translate into risks.
  - Engagement (point (e)): it should be complemented with EBA guidelines on institutions' engagement with counterparties (see our response to Question 10).

- An indicators should require to show the consistency between sustainability-related risk targets and impact targets (e.g. alignment with the 1.5°C objective of the Paris Agreement).
- 6:1 ratio: as we raised in our response to Question 17, an indicator on the sustainable power supply to fossil fuel financing ratio should be added - aiming for a 6:1 ratio as soon as possible before 2030.
- Institutions should be asked to adopt sector-based targets for the most environmentally harmful / high carbon sectors: coal, oil, gas and sectors listed in Paragraph 36. Such targets should be aligned with a 1.5°C scenario with no/low overshoot and limited volume of negative emissions.
- An indicator related to the existence of phase out plans for decommissioning individual assets and sectors which are the most environmentally harmful should be added (as we raised in our response to Question 11).

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?

- **Relevant scenario:** We call on EBA to provide clear guidance specifying that the methodology must be based on a 1.5°C scenario with no or low overshoot with limited volume of negative emissions.
- In Paragraph 97 (a), EBA should add a reference to the Paris climate Agreement (that was the global basis for the EU climate law) and to the Global Biodiversity Framework.

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

- **Need for specification:** EBA leaves too much room for interpretation when it comes to concrete engagement targets. We call on EBA to set clear objectives for institutions' engagement, as well as define cascading actions to be taken should portfolio companies not be sufficiently reactive to attempted engagement measures. This should be completed by EBA guidelines on institutions' engagement with counterparties (see our response to Question 10).
- **Inclusion of financial counterparties:** WWF is in disagreement about not including financial counterparties in paragraph 102, and to assess their transition plans the same way as those of all other counterparties, as it is not apparent why the scope should only encompass non-financial corporates.

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?

Lack of granularity: With reference to our answer to question 18, WWF encourages EBA to define more granular guidelines and principles on prudential transition planning. As previously stated, we are in full alignment with Reclaim Finance's recent report on Corporate Climate Transition Plans, which brings forth a number of indicators pointing towards gaps in transition plans. We encourage EBA to take a more prescriptive approach on the content of transition plans and consider more stringent principles in their transition plan assessment in line with CSRD / ESRS reporting, and include the following:

- **Fossil fuels and other environmentally harmful activities:** We call on EBA to adopt more stringent principles and for the most environmentally harmful activities, notably fossil fuels (coal, oil, gas). We expect EBA to address the elevated risk of stranded risks related to fossil fuels by urging institutions to end lending and investments in NEW fossil fuel projects immediately - as urged by the IEA since 2021 in its 1.5°C scenario - and to set up phase-out plans for existing fossil fuel assets, with differentiated exit timelines depending on the fuel and geography (based again on the IEA 1.5°C scenario):
    - coal exit by 2030 in EU/OECD countries, and by 2040 elsewhere
    - gas & oil exit by 2050 at the latest globally, and sooner in the EU/OECD.

- **Decarbonization targets:** We call on EBA to adopt a more prescriptive approach on decarbonization targets. These should cover all GHG emissions of scope 1-3 emissions in the medium- and long term across all geographies of activity. We encourage EBA to adopt a clearer stance on the targets' timeline, with targets for 2025, 2030, 2035, and an absolute net zero target of 2050. These emission reduction targets should be based on absolute reductions. EBA should be careful not to allow institutions to use carbon offsets which have a very problematic track record in terms of credibility and can be of very low quality, and should not be included in the reduction targets. [2, 3]

- **Decarbonization strategy:** We call on EBA to refer to Reclaim Finance's recent report on Corporate Climate Transition Plans to adopt more precise and guiding principles on coherent decarbonization strategies. We support in particular the following asks on financial targets:
    - Disclosure of revenues, Opex, and Capex into carbon intensive sectors (notably coal, oil, gas: this date is required in CSRD);
    - Target setting for investments and lending to climate solutions, in line with the EU taxonomy, and for the reduction of lending activities to carbon intensive activities (in terms of Capex, and Opex and absolute revenue % where available).

- **Engagement strategies:** We ask EBA to more clearly define the expected engagement strategy with holdings, which should detail lobbying activities all across the holdings' value chain. [1] Please also refer to our response to Question 10 on the need of EBA guidelines on institutions' engagement with counterparties.

Sources:

[1]
https://reclaimfinance.org/site/wp-content/uploads/2024/01/Report-Climate-Transition-Plan-Reclaim-Finance-January-2024.pdf

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?

One single transition plan: It is WWF's position that one common format for the prudential and non-prudential transition plan should be adopted to increase efficiency and the continuity of supervision. We are looking forward to EFRAG's sector-specific standards (ESRS Set 2 - and we are actively contributing to them as an EFRG member): they should further manifest the interoperability of prudential and non-prudential transition plans. As explained in our answer to Question 1, it is paramount to ensure the interoperability between CRD / CSRD / CSDDD-related transition plans, which will be best done through a common, single format. For the case of differing supervisors in charge, we suggest adopting a format that allows a chapter-allocation of the transition plan to the supervisors in charge, with distinct parts on prudential and non-prudential aspects. We are convinced that this would better ensure interoperability, exhaustiveness and alignment.

In practice, WWF suggests the following format: The CSRD and sector-agnostic ESRS should form the foundation for the transition plan, given its double materiality approach. On the sustainability impact side, this should then be enriched by requirements under the CSDDD and EU taxonomy, as well as the EU ETS and IED on the installation level. For sustainability-related financial risks, the transition should comprise all provisions under Solvency and CRD (see graph in appendix). Where supervision would fall under the responsibility of different supervisory authorities, different chapters within the transition plan should facilitate the process.

Finally, EBA should decide in favour of a template for the prudential part of the transition plans, to ensure comparability.

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.

- Generally, WWF calls on EBA to clarify that there is only one single transition plan which unites all reporting duties under CSRD & ESRS, CSDDD, Solvency and CRD. We call on EBA to provide for more granular alignment between the different reporting duties to ensure interoperability.
- WWF is concerned that the guidelines may be too vague to allow for effective supervision. Unclear risk indicators may lead to confusion or avoidance by financial institutions.
- As we mentioned in our response to Question 10, we see a critical need for EBA guidelines on institutions' engagement with counterparties. 'Engaging' with counterparties is extremely general and will create issues for implementation and monitoring.
- We are also concerned that, apart from one short positive mention in Paragraph 93, no escalation processes or penalties are included yet for transition plans that lack

ambition and credibility or which are not sufficiently implemented. Paragraph 93 should be further developed and highlighted.

- Finally, EBA should be clearer on their objective of placing transition planning on a strategic decision-making level in institutions by prescribing the involvement of CEO and CFO functions, and by defining the management board as the responsible body for overseeing the transition plans' implementation.

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

NA

ANNEX

WWF Transition Plan Framework Proposal: