

**Claudia BUCH**  
Chair of the Supervisory Board

Mr Bas Eickhout  
Member of the European Parliament  
European Parliament  
60, rue Wiertz  
B-1047 Brussels

Frankfurt am Main, 22 January 2026

**Re: Your letter (QZ-021)**

Honourable Member of the European Parliament, dear Mr Eickhout,

Thank you for your letter, which was passed on to me by Ms Aurore Lalucq, Chair of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 18 December 2025.

The primary task of ECB Banking Supervision is to ensure the stability and resilience of the banking sector, which includes addressing relevant risk drivers such as those arising from climate change and nature degradation. The economic and financial consequences of climate change and nature degradation are already evident and are continuing to intensify. The ability of banks to adequately manage climate and nature-related risks has thus been part of the supervisory priorities of ECB Banking Supervision and will continue to be over the 2026-2028 cycle.

Transition risks arise *inter alia* if climate policies are delayed. Climate risk scenarios prepared by the Network for Greening the Financial System (NGFS) show that the longer climate action is postponed and the more abrupt the eventual policy response, the higher the associated risks for the economy and the financial system.<sup>1</sup> As such, these scenarios underscore the importance of considering a disorderly or delayed transition towards net-zero targets when developing forward-looking scenario analyses.

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<sup>1</sup> See Alogoskoufis, S. et al. (2021), [ECB economy-wide climate stress test](#), *Working Paper*, No 281, ECB, and Network for Greening the Financial System (2024), [NGFS long-term scenarios for central banks and supervisors](#), November.

To assess the resilience of the financial sector, the European Commission invited the ECB and the European Supervisory Authorities (ESAs) in July 2021<sup>2</sup> to assess the financial stability impact of the implementation of the Fit for 55 package and the financing capacity of the EU's financial system under different conditions of stress. Across all scenarios, the exercise assumes that the Fit for 55 package will be fully implemented as planned and that its interim objectives will be achieved by 2030. Fit for 55 refers to the commitment of all EU Member States to transition to a climate-neutral economy by 2050 and to reduce emissions by at least 55% by 2030, compared with 1990 levels. The results of the Fit for 55 climate risk scenario analysis of the ECB and the ESAs, as published in 2024,<sup>3</sup> indicate that losses incurred by banks associated with the package taken in isolation - should transition risks materialize - are thus unlikely to threaten financial stability in the EU.

In your letter, you inquire about ECB Banking Supervision's approach to banks' business model sustainability and banks' ability to cope with a "delayed transition" scenario. In this context, and considering the ECB's role as competent authority, the requirements set out in Articles 87a(2) and 87a(3) of the Capital Requirements Directive are relevant. Specifically, the ECB supervises that institutions have robust strategies, policies, processes and systems for the identification, measurement, management and monitoring of climate and nature risks over the short, medium and long-term horizon of at least 10 years (Art. 87a(2)) and that institutions test their resilience to long-term negative impacts of climate and nature<sup>4</sup> factors under both baseline and adverse scenarios within a given timeframe, beginning with climate-related factors (Art. 87a(3)).

In line with Art. 87a(5), the new European Banking Authority (EBA) Guidelines on environmental scenario analysis<sup>5</sup> expect that, by 2027, financial institutions have developed stress testing and resilience analysis as two complementary scenario analysis tools. Resilience analysis supports institutions in assessing and, where necessary, adapting their business model to ensure viability against medium to long-term environmental shifts. It evaluates the capacity of individual institutions to sustain their strategic directions and profitability under severe conditions, considering projections of meaningful metrics of climate and environmental risks under a set of distinct plausible scenarios over a horizon of at least ten years.<sup>6</sup> These scenario analysis tools provide the appropriate framework to assess institutions' ability to cope with delayed transition scenarios.

As regards stress tests, the ECB is developing a framework to incorporate climate risks into regulatory stress testing, together with the EBA and the central banks and supervisory authorities in the EU. The objective is to assess the resilience and loss absorbing capacity of financial institutions against adverse but plausible climate events from a short and long-term perspective, including scenarios that assume a delayed or disorderly transition.

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<sup>2</sup> [COM/2021/390](#), 'Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. Strategy for Financing the Transition to a Sustainable Economy', July 2021.

<sup>3</sup> [https://www.ecb.europa.eu/pub/pdf/other/ecb.report\\_fit-for-55\\_stress\\_test\\_exercise~7fec18f3a8.en.pdf](https://www.ecb.europa.eu/pub/pdf/other/ecb.report_fit-for-55_stress_test_exercise~7fec18f3a8.en.pdf).

<sup>4</sup> Note that while Article 87a of the Capital Requirements Directive refers to environmental, social and governance risks, the EBA Guidelines on environmental scenario analysis (referenced later in this document) focus specifically on environmental risks. Social and governance factors remain outside the current scope of these Guidelines, as the approaches have not yet matured sufficiently.

<sup>5</sup> See EBA (2025), [Final Report on the Guidelines on environmental scenario analysis](#), 5 November.

<sup>6</sup> *ibid.*, paragraphs 99 and 105.

The ECB is approaching the supervision of the new requirements regarding the assessment of business models and prudential transition planning in a gradual and targeted manner.<sup>7</sup> Our approach focuses on the specifications provided by the EBA Guidelines on the management of environmental, social and governance risks,<sup>8</sup> including the expectation that banks incorporate a set of different time horizons into their transition planning, covering the short, medium and long term (at least ten years). As a first step of this gradual approach, the ECB has initiated informal supervisory dialogues with institutions to discuss progress, address implementation challenges and identify areas for improvement. These will continue throughout 2026.

The ECB has been supporting supervised institutions in developing environmental scenario analysis capabilities through several initiatives, most notably the 2022 ECB climate stress test<sup>9</sup> and the publication of the related report on good practices for climate stress testing.<sup>10</sup> Observations from more recent targeted reviews indicate that while a majority of banks now recognise climate factors as being material for credit risk, gaps remain. Banks assessed have now included climate risk in their stress testing framework, even though more work needs to be done to improve the robustness and comprehensiveness of the frameworks.<sup>11</sup>

Against this background, ECB Banking Supervision will continue to focus on banks' ability to manage material climate and nature risks, in close alignment with the EBA Guidelines. In doing so, the ECB supports banks in enhancing their capabilities to assess resilience to climate and nature risks, which includes contributing to the development of scenario analyses and stress test methodologies.

Yours sincerely,

[signed]

Claudia Buch

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<sup>7</sup> See Elderson, F. (2025), "[Banks have made good progress in managing climate and nature risks – and must continue](#)", *The ECB Blog*, 11 July.

<sup>8</sup> See paragraph 99 of EBA (2025), [Final Report on the Guidelines on the management of environmental, social and governance \(ESG\) risks](#).

<sup>9</sup> See ECB (2022), [2022 climate risk stress test, July](#).

<sup>10</sup> See ECB (2022), [ECB report on good practices for climate stress testing, December](#).

<sup>11</sup> See Elderson, F., op.cit.