Pills

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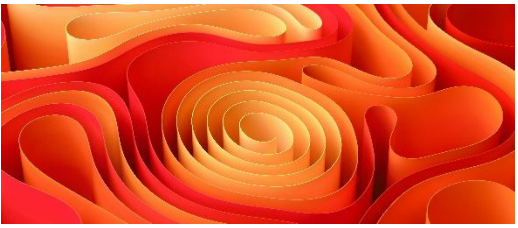

TOPICS:

ESG risk

SOURCE

European Supervisory Authorities

ESAs Launch Consultation on How to Integrate ESG Risks in the Financial Stress Tests for Banks and Insurers

- The ESAs (EBA, ESMA, and EIOPA) have issued **draft joint guidelines aimed at integrating environmental, social, and governance (ESG) risks into supervisory stress testing frameworks**, pursuant to revised mandates under CRD VI and the Solvency II Directive. These guidelines target national competent authorities and aim **to promote consistency, long-term considerations, and methodological standardization** across the EU financial sector. The guidelines are under **public consultation until 19 September 2025**, with final publication expected by January 2026.
- **The guidelines are not prescriptive** about performing ESG stress tests but provide a framework for authorities who choose to undertake them. **Initially, the focus is on environmental risks** - especially climate - while encouraging gradual integration of social and governance elements.
- **Stress testing is structured around two-time horizons: short- to medium-term** tests assess capital and liquidity resilience, while **longer-term** analyses evaluate business model viability under evolving ESG scenarios.

  Authorities are encouraged to adopt a risk-based, proportional approach, beginning with a materiality assessment tailored to entity-specific exposures and activities.
- The design of stress tests should reflect available data and methodological maturity, with flexibility to evolve over time.
- Methodologically, **the guidelines promote both top-down and bottom-up approaches** - or hybrids - depending on data availability and assessment objectives. Scenario design should incorporate scientifically grounded, forward-looking pathways and may include both compound and second-round effects.
- Organizationally, **competent authorities should allocate appropriate resources, develop IT and data capabilities, and maintain structured dialogue with supervised entities**. Coordination across jurisdictions and financial sectors is encouraged to avoid fragmentation and capture systemic interconnections.