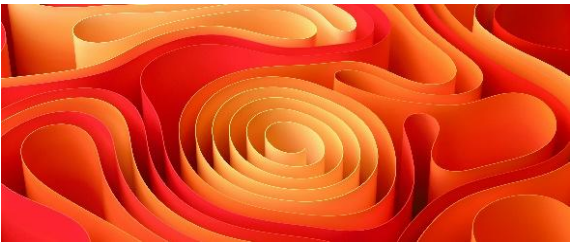
Pills

Regulatory/Supervisory Pills | N.8 January 2026



TOPICS:

Stress Test

SOURCE:

European Central Bank

ECB to Assess Banks' Stress-Testing Capabilities to Capture Geopolitical Risk

- The ECB announced **a thematic stress test** focused **on geopolitical risk**: the aggregate results will be published in the **summer of 2026**. This initiative will involve 110 directly supervised banks and is designed **to evaluate their resilience and preparedness** for severe geopolitical disruptions.
- The stress test will take the form of a **reverse stress test**, where **banks must define scenarios that would lead to a specified outcome** - specifically, a depletion of at least 300 basis points in their Common Equity Tier 1 (CET1) capital. This approach differs from conventional stress tests, which typically apply a common scenario to all institutions. The exercise complements the 2025 EBA stress test and is intended to enhance the granularity of supervisory insights.
- **Geopolitical risk** is recognized as a cross-cutting driver that impacts various risk categories, including credit, market, liquidity, operational, governance and business model risks. Given its multifaceted nature and influence on macroeconomic uncertainty, geopolitical risk will remain **a supervisory priority** for the ECB from 2026 to 2028.
- Participating banks are required to identify significant geopolitical events, assess their potential quantitative **impact on solvency, liquidity and funding**, and outline mitigating actions. The goal is to assess and reinforce banks' internal stress-testing capabilities, especially within the context of their Internal Capital Adequacy Assessment Process (ICAAP).
- The stress test will be integrated into the ICAAP to minimize costs, using existing data templates. While the test is not linked to capital requirements or Pillar 2 Guidance (P2G), **the results will qualitatively inform the Supervisory Review and Evaluation Process (SREP)**. Identified weaknesses will be assessed in terms of how effectively banks incorporate geopolitical risk into materiality assessments, stress-testing frameworks, and data aggregation processes.