



TOPICS:

ESG Risk

SOURCE:

European Supervisory Authorities

ESAs Publish Joint Guidelines on ESG Stress Testing

- The ESAs - European Supervisory Authorities (EBA, EIOPA, ESMA) have issued Joint Guidelines to enhance **the integration of environmental, social, and governance (ESG) risks into supervisory stress testing frameworks**. The Joint Guidelines apply from 1 January 2027.
- The Guidelines prescribe a **proportionate, risk-based approach**, beginning with materiality assessments to identify ESG risks most relevant to specific financial entities. A phased implementation is advocated - initially prioritising environmental and climate-related risks, then progressively incorporating social and governance elements. Competent Authorities should define clear objectives for both **short-term** (≤ 5 years) and **long-term** (≥ 10 years) stress testing, covering resilience to adverse ESG-linked shocks and business model sustainability.
- Stress tests should balance **quantitative and qualitative elements**, with scenario designs

informed by scientific sources such as the IPCC or NGFS. Authorities may adopt top-down, bottom-up or hybrid approaches, ensuring consistency and comparability. ESG stress testing should consider systemic spillovers across sectors, varying time horizons and realistic balance sheet adjustments under transition scenarios. Proportionality principles apply to data granularity, modelling sophistication and reporting burdens.

- The Guidelines call for **robust governance and resource allocation**, including specialist expertise and IT infrastructure. Transparent timelines, rigorous quality assurance and structured engagement with financial entities are essential. While public disclosure is not mandatory, the ESAs encourage it where appropriate to enhance market discipline.

