Joint Consultation Paper on draft joint guidelines on ESG Stress Testing

1. Title I - Subject matter, scope and definitions

Q1. Please add here any comments on "Title I - Subject matter, scope and definitions"

Comments:

We welcome the effort made to establish a common scope for the guidelines. This is an important step towards ensuring consistency across supervisory authorities and sectors.

It might be helpful to include an explicit reference to the concept of double materiality, distinguishing between (a) financial materiality and (b) environmental and social impact materiality. While we recognise that the concept of double materiality may be more developed in some sectors than others, it could be helpful to encourage supervisory authorities to clarify how both financial and broader sustainability impacts are considered, to ensure alignment with EU disclosure frameworks.

We also suggest clarifying that the ultimate aim is not to have supervisory authorities develop independent stress testing definitions, but rather to work towards a coherent and aligned approach across jurisdictions and sectors. This could be noted directly in the initial definitions section, to avoid ambiguity.

In addition, when listing the applicable sectoral legislation, it might be beneficial to refer not only to the underlying directives but also to the related EU regulations derived from these directives, in order to make the scope fully comprehensive. However, we recognise that the Guidelines should not attempt to list all evolving technical standards.

2. Title II - Requirements regarding consistency, long-term considerations and common standards for assessment methodologies in stress testing of ESG risks

Q2. Do you agree with the list of objectives? Do you have any additional suggestions (addition, removal, precision, etc.)?

Comments:

We broadly agree with the stated objectives and appreciate the balance between short- to medium-term resilience testing and longer-term strategic assessments. These objectives represent a good foundation for a consistent and forward-looking framework.

We suggest that the objectives could be further enhanced in the following ways:

- It might be helpful to explicitly add the promotion of comparability where feasible, particularly in terms of methodologies and transparency, while recognising that results themselves may not be directly comparable due to sectoral differences.

- We propose placing stronger emphasis on the use of ESG stress testing to support forward-looking risk management, including integration of scenario outputs into institutions' risk appetite frameworks and strategic planning processes. We note that in the insurance sector, this would complement existing requirements under Solvency II (e.g. ORSA) rather than create new obligations. This would reinforce the role of supervisory stress testing as a tool not only for resilience assessment but also for proactive risk management.

- Objectives could also include contributing to the prevention of a growing protection gap, for instance where climate-related risks become uninsurable, potentially creating regulatory risk. This point is particularly relevant to insurance, while recognising that the concept of a protection gap does not apply equally across sectors. Stress testing should help identify such risks and guide follow-up actions that promote closing insurance gaps.

- While the guidelines propose horizons of 5 to 10 years, in many areas of insurance business this may be too short. We acknowledge that stress test accuracy diminishes over long horizons, so qualitative assessments may be more appropriate for very long-term risks. For example, long-term life insurance or mortgage contracts often extend beyond 10 years, and even some non-life undertakings (with annually renewable contracts) may face risks that materialise over several decades. It would be helpful if the guidelines acknowledged that, for insurance undertakings, resilience should be assessed, for example, over the expected run-off period of liabilities, and in some cases over multi-decade horizons. However, to avoid extreme efforts for the undertakings, these extended horizons should be in line with long-term scenarios for sustainability reporting or ORSA calculations.

- For medium- to long-term strategic resilience testing, it may be beneficial to make explicit reference to prudential transition plans as a basis for modelling the long-term impact of ESG risks. Where such plans exist, they could be used, but we recognise they are not yet universal and should not become a de facto requirement

Finally, we note that the guidelines could provide more specific guidance on how to establish ESG scenarios, especially for physical risks in insurance. For example, it would be helpful to clarify whether scenarios should only shock claims or also reflect broader economic and financial impacts.

Q3. Do you have any comment or suggestion on paragraphs 16-18 on "Materiality assessment"?
Comments:

We support the proposal to use a risk-based approach and welcome the recognition that materiality assessments should evolve as data and methodologies improve. This flexibility is important given the developing nature of ESG risk modelling.

To enhance clarity and consistency, we suggest the following refinements:

- It would be helpful to explicitly align the materiality assessment with the approach under the Corporate Sustainability Reporting Directive (CSRD) and ORSA reporting requirements. This would promote consistency with broader EU disclosure frameworks and improve comparability across the financial sector.

- While criteria and thresholds are useful, the degree of sophistication in materiality assessments should be proportional to the purpose of the exercise and the objectives set out in paragraph 15. We note that an excessive focus on quantification can impair strategic thinking and shift attention away from the overall purpose of stress testing. The guidelines could usefully state that not all risks need to be quantified in detail, provided the key exposures and transmission channels are identified.

- To support consistent implementation, it might be beneficial to include a shortlist of possible criteria that competent authorities may consider when assessing materiality. These could cover, for example, portfolio exposures, geographic concentration, sectoral vulnerabilities, or the expected persistence of risk factors. This list should remain illustrative, leaving supervisors discretion to apply sector-specific judgement.

Overall, we suggest clarifying that materiality assessments should remain dynamic and proportionate, leveraging existing EU regulatory standards, but without creating an excessive burden of quantification that may reduce the usefulness of the exercise for strategic risk management.

Q4. Please add here any additional comments on Title II - 4.1 Objectives
Comments:

We agree with the objectives outlined and would like to suggest a few additional points for consideration.

- Stress-test outcomes could also play an important role in shaping macroprudential policy. Explicitly recognising this use would highlight the broader value of supervisory stress testing beyond microprudential oversight, helping supervisors anticipate systemic vulnerabilities and design appropriate policy responses.

- In Point 19, where physical risks are referenced, it might be beneficial to also make explicit reference to longer-term gradual climate changes in addition to extreme weather events. This would ensure that chronic climate impacts, such as rising sea levels or shifting temperature patterns, are not overlooked in supervisory assessments.

- In Point 24, we suggest drawing attention to the potential for evolving or worsening insurance protection gaps. This would be particularly relevant in insurance, though we recognise it has limited applicability in banking. Highlighting this issue would reinforce the importance of using stress testing to identify vulnerabilities and inform follow-up actions to preserve insurability.

Overall, incorporating these clarifications would help ensure that the objectives are comprehensive and fully capture both systemic and sectoral challenges.

Q5. Do you have any comment or suggestion on paragraphs 26-27 on "scope" and paragraph 28 on "time horizon"?
Comments:

We welcome the proposed guidance on scope and time horizons, but believe some clarifications would help ensure consistency and comparability across sectors.

- On scope, it would be helpful to suggest a common baseline, while leaving supervisors flexibility to adapt scope to sector-specific circumstances. This could cover on-balance sheet exposures, off-balance sheet items, and securitisations. For insurance, clarification is also needed on whether pension liabilities and guarantee contracts fall within the intended scope. A common baseline definition would support comparability across entities and jurisdictions.

- On time horizons, we suggest adopting a three-horizon framework rather than a simple distinction between short/medium term (up to 5 years) and long term (10 years or more). A third horizon could explicitly capture acute climate events, such as severe floods or major windstorms, which operate on very different timescales from gradual structural transitions. Although we acknowledge that the existing two-horizon framework may already capture many of these risks.

- It would also be important to consider not only existing liabilities but also the long-term intention of financial entities to operate in the market. For insurance undertakings, even those with annually renewable contracts, resilience should be assessed over several decades to reflect the nature of their long-term commitments and business model.

- Finally, regarding the gradual approach to ESG stress testing, it would be useful to set out a common timeline or sequencing for competent authorities.

Q6. Do you have any comment or suggestion on paragraphs 30-33 on scenario design and application?

Comments:

We welcome the proposed guidance on scenario design, which provides a useful framework. We believe that some further clarifications and enhancements would improve consistency and usefulness:

- To ensure comparability and a level playing field, core central scenarios could be broadly aligned to ensure methodological comparability, while recognising that sectoral differences may prevent full alignment of results.

- Scenarios should combine both narrative elements (such as policy timelines and technology shifts) and quantitative trajectories (such as GDP, carbon price, or temperature changes). This ensures that they capture both the qualitative drivers and the measurable financial impacts.

- Scenarios should incorporate compound shocks (for example, a sudden regulatory policy shift combined with an extreme weather event) and second-round effects (such as amplification of credit spreads or collateral fire sales). These dynamics are important in understanding the potential systemic consequences of ESG risks.

- Reference scenarios should be aligned with the latest developments in science and policy. They should avoid unrealistic assumptions such as the absence of climate change or an immediate and orderly transition to net zero. It might also be useful to clarify whether the baseline scenario should assume a 1.5-degree pathway, or reflect the current scientific consensus, which indicates a higher trajectory of around 3 degrees.

- One optional alternative scenario should explore the implications of crossing irreversible physical tipping points, where feasible, without prescribing specific requirements.

- Social risks, such as uninsurability and inequality, could also be considered either as separate stress elements or integrated within compound scenarios, given their potential systemic impact.

Q7. Do you have any comment or suggestion on paragraphs 34-36 on "top-down vs. bottom-up approaches"?
Comments:

We agree with the discussion of the merits of top-down and bottom-up approaches. Some additional clarifications could help ensure a common understanding and consistent application.

While both top-down and bottom-up approaches have value, it might be desirable to encourage the hybrid approach as the default option. This would allow competent authorities to benefit from the strengths of both methods, while retaining flexibility to apply only one approach where circumstances make the hybrid approach impractical or disproportionate.

Finally, it may be helpful to clarify that the term “underwriting risk” in this context refers specifically to insurance underwriting risk, to avoid any ambiguity.

Q8. Do you have any comment or suggestion on paragraphs 37-40 on "level of granularity"?
Comments:

The current framing appears too focused on assets, whereas for insurance undertakings it is equally important to assess liabilities under stressed conditions. We suggest expanding the guidance, for example in points 37(a) and 38, to ensure that liabilities are also appropriately considered when determining the level of granularity.

Q9. Do you have any comment or suggestion on paragraphs 41-44 on "balance sheet assumptions"?
Comments:
We agree with the approach of starting from a static balance sheet while allowing for dynamic approaches over longer horizons. This provides a pragmatic balance between comparability and realism.

It might be helpful to clarify expectations around the justification of managerial actions in dynamic balance sheet settings. We suggest that financial entities should be expected to demonstrate the credibility of such actions by linking them, where possible, to their publicly disclosed transition plans. This aligns with paras 42–43 of the draft Guidelines, which already highlight the importance of credible managerial actions.

At the same time, we propose that such requirements be applied in a proportionate manner, recognising that the maturity of transition planning and disclosure varies across entities and sectors.

Q10. Please add here any additional comments on Title II - Requirements regarding consistency, long-term considerations and common standards for assessment methodologies in stress testing of ESG risks - 3.2 Principles and methodological considerations

Comments:

We support the principles and methodological considerations set out, and would like to add two points for clarification.

- For cross-border groups, there is a specific need for close home/host coordination where branches or subsidiaries have exposures that differ materially from those of the head office. Without such coordination, important risk drivers could be overlooked, and comparability between jurisdictions could be weakened.

- On disclosure, while we acknowledge that the level of detail may vary depending on data quality and methodological robustness, we believe that some form of publication of ESG stress test results should be considered, aligned with existing sectoral disclosure requirements, even if only in aggregate.

Q11. Please add here any comments on Title II - Requirements regarding consistency, long-term considerations and common standards for assessment methodologies in stress testing of ESG risks - 4.3 Organisational and governance arrangements

Comments:

We welcome the proposed organisational and governance arrangements and believe that a number of additions and clarifications could further strengthen their effectiveness.

- It may be beneficial to establish a dedicated ESG stress-testing working group within supervisory colleges. This would support coordinated oversight and knowledge-sharing across jurisdictions.

- Capacity building could be enhanced through EU-wide joint training programmes and data-sharing hubs for supervisors. This would help accelerate learning and improve consistency in approaches.

- Competent authorities could be encouraged to coordinate reviews of major data gaps with organisations such as the ECB and the NGFS, to make progress on data challenges more efficiently.

- With reference to paragraph 59, it is important that ESG stress test scenarios are plausible. Unrealistic or overly extreme scenarios could lead to overstated conclusions and reduce comparability across sectors.

- Regarding timelines (paragraph 51), it would be helpful to introduce common reference dates or principles across supervisory authorities, to promote alignment and ensure comparability.

- Before publication of results, competent authorities could identify and address any unexpected outcomes relating to affected entities, in order to provide clarifications and resolve potential misunderstandings.

3. Additional Comments

Q12. Do you have any additional and/or general comments on the Consultation Paper?

Comment (if answered Yes):

We welcome the draft guidelines and their ambition to provide a consistent and forward-looking framework for ESG stress testing. To further strengthen the guidelines, we suggest the following additional considerations:

- It could be valuable to include, in an appendix, examples of good practice, case studies, or pilot results from existing EU climate stress tests. This would help ground the guidelines in practical experience and provide supervisors and market participants with concrete illustrations of how the methodology can be applied.

- Several important design elements, such as scope, time horizon, and scenario construction, might best be determined through cooperation between supervisors and market participants, allowing for sector-specific differences. Supervisors may not always be able to identify effectively which risks are most material for specific entities, and additional dialogue could enhance the relevance and reliability of the stress test outcomes. This would build on the principles already outlined in Point 56.

- For longer-term scenarios, it may be useful for competent authorities to define, at an appropriate level of detail, the pathway or pathways to be applied. This would provide a consistent basis for assessing resilience while still allowing entities to consider their own transition strategies.

- Competent authorities should also be encouraged to make appropriate use of stress test results when discharging their supervisory duties with respect to specific undertakings. This would help ensure that the exercises are not purely theoretical but contribute meaningfully to ongoing supervision and dialogue with financial institutions.

4. Impact Assessment

Q13. Do you have any comments on the Impact Assessment?

Comment (if answered Yes):

We particularly welcome the emphasis on proportionality and on focusing supervisory stress testing on the most material ESG risks.

While we recognise that such requirements would fall within the remit of legislation rather than guidelines, it may be useful for the impact assessment to reflect the importance of supervisory coordination and comparability.