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The Banque de France, the ACPR and the AMF launch a first system-wide stress test on interconnections within the financial system

The Banque de France, the Autorité de Contrôle Prudentiel et de Résolution (French Prudential Supervisory and Resolution Authority) and the Autorité des Marchés Financiers (AMF) are jointly launching a 'system-wide' exploratory stress test exercise with the main French financial institutions. This exercise is being conducted within a robust French financial system in order to better understand the interconnections and interdependencies between the various players, as well as the potential for destabilisation that could arise in a context of financial stress.

A series of recent episodes have highlighted the role of interconnections and interdependencies between financial players in the development of stress within the financial system, particularly between the banking sector and non-bank financial institutions, (Non-Bank Financial Intermediation or "NBFi"). For example, significant stress was observed:

- On the liquidity in the European and American markets in March 2020, at the start of the Covid-19 pandemic;
- on the energy markets at the end of 2021 and in 2022, following Russia's invasion of Ukraine;
- on the British Gilt market in September and October 2022; and
- in the US financial sector following the difficulties encountered by US regional banks in March 2023.

During each of these episodes, shock amplification phenomena were observed, sometimes involving banking and non-banking players.

To gain a better understanding of this type of phenomena, the Banque de France, the ACPR and the AMF join forces to conduct, for the first time, an integrated system-wide stress test (taking into account the interactions between players), with the participation of more than 25 French financial institutions, including all globally systemically important banks established in France and, more broadly, a wide coverage of the various sectors involved (banking, insurance, and asset management). Unlike traditional stress tests, which focus on a single sector, this exploratory exercise aims to understand how a severe market shock spreads across the financial system and the system-wide consequences of the management decisions taken by each actor, in particular to manage their liquidity needs and meet their obligations (sales of securities, borrowing, issuance of securities, or entering into repurchase agreements).

The institutions participating in the exercise implement a scenario that reproduces the characteristics of a stress situation, the severity of which has been calibrated to exceed that of

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the worst fortnight observed over the last twenty years. They analyse the impacts of this scenario and explain how they would respond to it.

To date, only the UK authorities (central bank, prudential authority and market authority) have conducted a comparable exercise in 2023 and 2024. The French authorities have drawn lessons from System-wide stress test conducted in the UK for the design and methodology of this exercise.

Feedback from the participants to the system-wide exploratory stress test exercise will be consolidated and analysed during an initial analysis phase. On this basis, a second phase, focusing on the evaluation of the interactions between players and market reactions, will be conducted during the first half of 2026. The Banque de France, the ACPR and the AMF will publish a joint summary report on the lessons learned at the end of the exercise. This exploratory exercise seeks to improve our understanding of contagion dynamics and potential vulnerabilities associated with its interconnections. It will have no consequences on the individual supervision of the participants who have volunteered to take part in this exercise.

About Banque de France :

As an independent institution, the Banque de France has three main missions: monetary strategy, financial stability and providing services to the economy and society. It helps to define the monetary policy of the euro area and implements this in France; it supervises banks and insurance companies, and ensures risk management; additionally, it offers a wide range of services to firms and individuals.

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