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European Systemic Risk Board: fifteen years' existence and fresh financial stability challenges

The fifteenth anniversary of the creation of the European Systemic Risk Board (ESRB) provides an opportunity to take stock of how this body has functioned. Created in the wake of the 2008 financial crisis, the ESRB's mission is to prevent and mitigate systemic risk, i.e. the risk that disruptions impact the entire European financial system. It has therefore deployed a common framework for analysing these risks and helped to mitigate them by alerting national authorities to new threats (real estate risk in 2019, non-bank finance, for example). The ESRB now needs to adjust its approach by focusing on work with global implications while making greater use of the contributions of its members to optimise its operational efficiency. It must also take more account of all the risks likely to affect financial stability, including long-term trends (e.g. demographic and technological trends).

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Financial Stability Directorate
Financial Regulation and Coordination Division

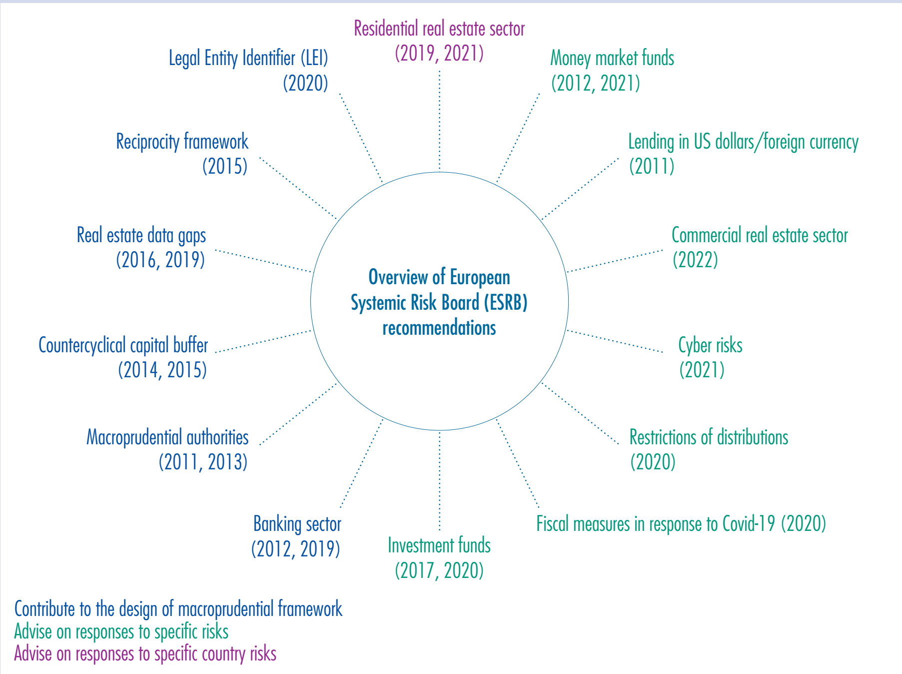
JEL codes
F02, G28,
N20

78
General Board members

86
reports drafted

32
recommendations made

Overview of recommendations adopted by the European Systemic Risk Board (ESRB)



Source: European Systemic Risk Board (ESRB). Layout by the Banque de France.

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Up until the 2008 financial crisis, financial regulators focused primarily on the individual oversight of market participants (i.e. microprudential supervision), without paying sufficient attention to the overall exposure of the financial system to systemic risks (macroprudential supervision).

This observation resulted in a considerable strengthening of the oversight of financial players and activities around the world. In Europe, upon the recommendation of Jacques de Larosière, Honorary Governor of the Banque de France, lawmakers established the European System of Financial Supervision (ESFS) on 24 November 2010, which includes the European Systemic Risk Board (ESRB) and the national macroprudential authorities.[1] The ESRB is responsible for the *"macro-prudential oversight of the financial system within the [European] Union in order to contribute to the prevention or mitigation of systemic risks to financial stability in the Union"*.[2] The broad composition of the ESRB ensures a cross-cutting approach to the identification of systemic risks, with the participation of national central banks and sectoral supervisory authorities.

Over the past fifteen years, the ESRB has achieved significant results in several areas (Rehn et al., 2024). In particular, it has established a common framework for European macroprudential policy and leveraged the soft law instruments at its disposal.

The ESRB now faces new challenges that are leading to changes in its remit, including the increasing role of the European Central Bank (ECB) since the creation of the Single Supervisory Mechanism for banks, as well as the effects of Brexit. It is also necessary to identify risks as early as possible through stress tests conducted across the entire financial sector. Lastly, it is essential to simplify systemic risk prevention and to enhance its effectiveness (Villeroy de Galhau, 2025).

1 The ESRB was created to coordinate European macroprudential oversight

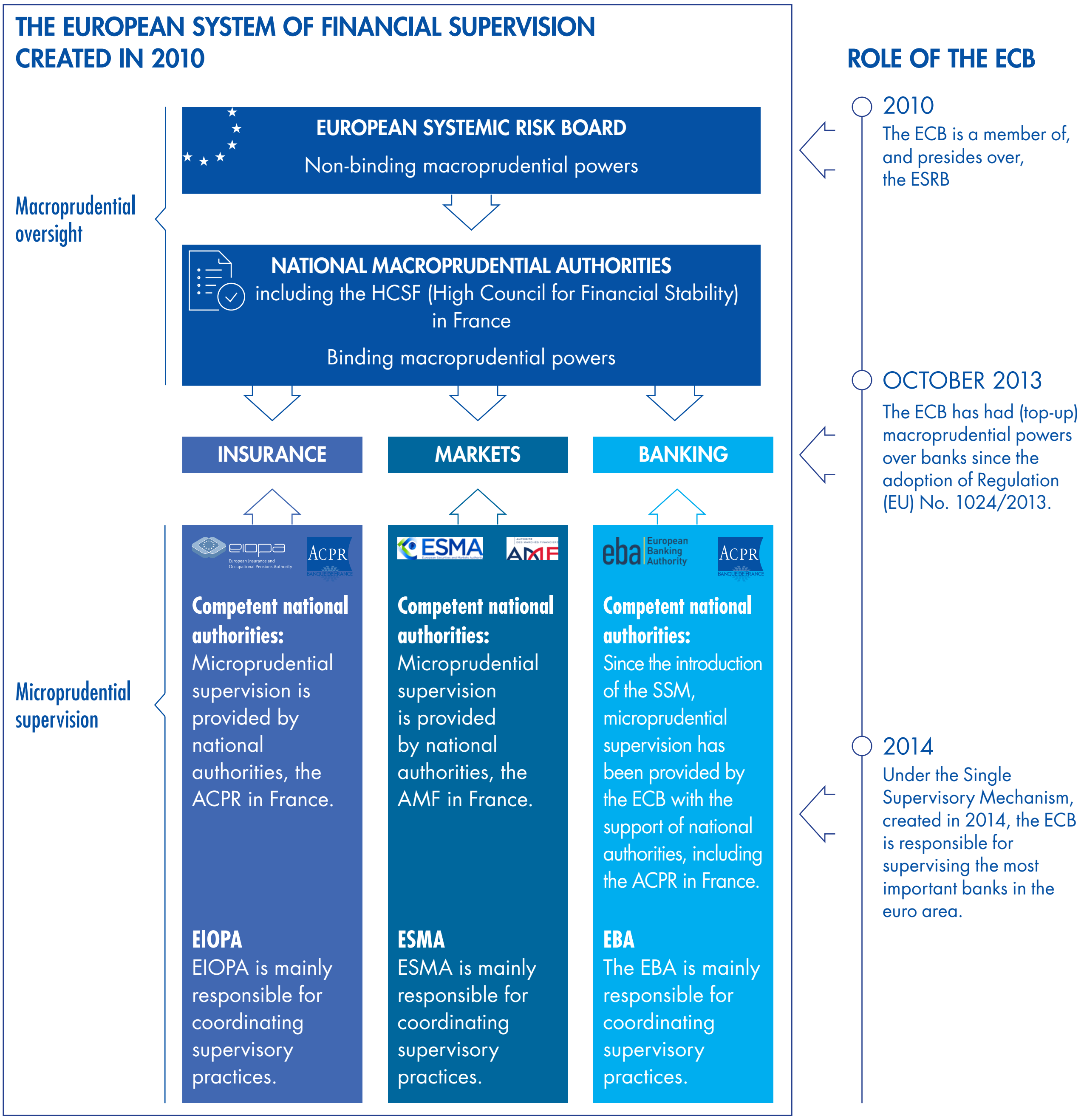
The 2008 financial crisis exposed significant shortcomings in the system of financial supervision. It did not take sufficient account of "systemic risk", i.e. the risk that disruptions could affect the stability of the entire financial system. That is why, at the London summit held in April 2009, G20 leaders committed to adopting a macroprudential oversight framework aimed at preventing or mitigating systemic risk.[3]

Within the European Union, the ESRB has been tasked with (i) detecting systemic risks to the stability of the financial system and, where necessary, (ii) alerting the relevant national or European authorities[4] so they can assess whether corrective measures need to be taken. Therefore, the ESRB's mandate rounds out that of the ECB and national macroprudential authorities such as the *Haut Conseil de stabilité financière*[5] (HCSF – High Council for Financial Stability) in France, all of which have binding powers over financial entities. This two-tier – national and European – organisation structure makes it possible to identify systemic risks at EU level and national macroprudential authorities can take swift action tailored to the specific characteristics of each country.

This was compounded by the need to standardise microprudential supervision rules and practices in order to create a coherent whole. This led to the establishment of the European System of Financial Supervision in 2010 (see infographic below).

1 The creation of the Financial Stability Board responded to this concern at a global level (Bourgey et al., 2024).
2 Regulation (EU) No. 1092/2010 of 24 November 2010, Article 3.
3 See Clément (2010) and Grande (2011).
4 These authorities comprise both national central banks, national macroprudential authorities and national supervisory authorities, and European supervisory authorities, the ECB and the European Commission.
5 See the presentation of the HCSF given by the French Ministry of the Economy.

Links between the European System of Financial Supervision and the Single Supervisory Mechanism



Source: Banque de France.
Note: *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority); *Autorité des marchés financiers* (AMF – Financial Markets Authority); ECB, European Central Bank; EBA, European Banking Authority; EIOPA, European Insurance and Occupational Pensions Authority; ESMA, European Securities and Markets Authority; ESRB, European Systemic Risk Board; SSM, Single Supervisory Mechanism.

Within the ESRB, the European legislator was careful to ensure broad representation, both geographically (beyond euro area countries) and sectorally, by onboarding national central banks and European and national authorities responsible for supervising banks, insurance companies and markets. The ECB plays a key role among ESRB members. As well as chairing the General Board (i.e. the decision-making body), it provides logistical, administrative and analytical support to the ESRB. Furthermore, following the creation of the Single Supervisory Mechanism (SSM) in 2014, the ECB expanded its powers to include direct supervision of the main banks in the euro area and certain macroprudential powers (see infographic above).

BOX 1

Institutional frameworks in the United States and Japan

Many G20 countries have developed their macroprudential oversight frameworks and adopted instruments designed to prevent systemic risk.

In the United States, the Dodd-Frank Act (2010) constituted the cornerstone of post-crisis reforms. One of its main provisions was the creation of the Financial Stability Oversight Council (FSOC), tasked with identifying and monitoring systemic risks in the US financial system.

In Japan, the Council for Cooperation on Financial Stability (CCFS) was created in the wake of the 2008 crisis. It brings together the Commissioner of the Financial Services Agency (FSA) and the Deputy Governors of the Bank of Japan twice a year to conduct a comprehensive review of the financial system.

2 The ESRB has developed a common European conceptual and operational framework for macroprudential oversight

Since its creation, the ESRB has published seminal conceptual research[6] that now forms the basis for a common framework for European macroprudential policy. This framework sets out a common method for identifying and analysing systemic risks, selecting the appropriate instruments for addressing them, implementing measures and assessing their effects. It has contributed to more effective identification of interconnections and serves as a reference for the ESRB's actions.

The ESRB contributes to systemic risk assessment within the financial system

The ESRB has primarily helped to identify risks in the banking sector, in support of national macroprudential authorities. In particular, it has developed a set of rules regarding the supervision of macroprudential capital buffers, notably the countercyclical capital buffer (CCyB), a loan protection reserve that can be released in the event of a contraction in the supply of bank credit. Based on its 2014 guidelines, the ESRB has worked to achieve greater convergence of national practices when calculating the CCyB by factoring in common indicators[7] and proposing approaches tailored to specific countries. It has also played a key role in coordinating macroprudential policies, issuing recommendations concerning appropriate levels of capital buffers and highlighting risks of inconsistency or under-calibration.

The ESRB subsequently extended its oversight to non-bank financial intermediation (for the associated risks, see Saillard et al., 2023). For several years now, the ESRB has adopted a proactive approach, notably through the publication of the annual *EU Non-bank Financial Intermediation Risk Monitor* (ESRB, 2025), which analyses the systemic risks associated with the financial sector using

6 See ESRB (November 2024, March 2022 and 2018 concerning the manual for the use of macroprudential instruments for the banking sector by national authorities) and "Policy framework" on the ESRB website.

7 Such as the Credit-to-GDP gap ratio.

a holistic approach that combines entity-based monitoring (to assess the risks posed by specific institutions such as investment funds or insurers) and activity-based monitoring (examining economic functions such as liquidity transformation or indebtedness, regardless of the type of institution). The ESRB also rightly emphasises the need to improve the availability and quality of data in order to identify vulnerabilities more effectively and map interconnections within the financial system.[8] Consequently, in 2024, the ESRB's publications included its response[9] to the European Commission's consultation[10] on the adequacy of the macroprudential framework for non-bank intermediation.

In phase with this approach, the ESRB has also stepped up its monitoring of liquidity risks within the financial system. In February 2025, it published an innovative analytical framework:[11] while liquidity is traditionally monitored at the level of each individual player (known as a microprudential approach), the ESRB has adopted a macroprudential and systemic perspective. This new framework is based on quantitative metrics that measure liquidity risks at three levels: (i) the ability of participants to obtain financing (funding liquidity), (ii) the ability to sell or exchange assets without disrupting markets (market liquidity), and (iii) the risk that tensions in one part of the system will spread (contagion and amplification).

The ESRB has successfully used its instruments to prevent systemic risks

Since its creation in 2010, the ESRB has made use of its powers, "warnings" and "recommendations" to mitigate systemic risks within the European Union (see Box 2). Although they are not legally binding, these instruments have facilitated coordination between national and European authorities, thereby enhancing the resilience of the financial system.

The real estate sector, which is particularly vulnerable to financial crises, has been the focus of several specific warnings issued by the ESRB aimed at preventing a crisis. For example, in 2019, the ESRB alerted the EU Member States concerned to the growing risks associated with high levels of household debt.[12] In France, based in part on this warning, the HCSF implemented binding macroprudential measures to regulate the conditions for granting mortgages, limiting borrower's effort ratio to 35% of their income and capping loan terms at 25 years. These measures played a decisive role in preventing excessive risk-taking by regulating lending practices, thereby avoiding an accumulation of vulnerabilities in a context of low interest rates and sharp rises in property prices (Bénassy-Quéré, 2023). The ESRB can also issue general warnings, such as that issued in 2022 flagging up an increase in systemic risks in the European financial system.[13]

In 2020, the ESRB also submitted several recommendations to prevent the economic disruption linked to the Covid-19 pandemic from leading to a systemic financial crisis.[14] The ESRB's action was preceded by an ECB decision to temporarily relax microprudential requirements,[15] before the HCSF in France adopted a decision to relax countercyclical capital buffer requirements.[16] In a similar vein, the ESRB recommended[17] temporarily suspending the distribution of dividends to preserve the capacity of financial institutions to absorb losses and support the economy. This recommendation was largely adhered to by national and sectoral authorities (ESRB, September 2022, "Specific publications").

8 See Rehn (2024).
9 See ESRB (November 2024), "Specific publications".
10 See European Commission, 2024.
11 See ESRB (February 2025), "Specific publications".
12 See ESRB (September 2019), "Specific publications".
13 See Lagarde (2023).
14 See Portes (2021).
15 See ECB (2020).
16 See HCSF (2020).
17 See ESRB (2020), "Recommendations".

The ESRB's macroprudential action also involves issuing "opinions" on macroprudential measures envisaged by EU Member States or the ECB prior to their adoption. In particular, the ESRB frequently issues opinions on national decisions to amend the sectoral systemic risk buffer (sSyRB) or the buffer for other systemically important institutions (O-SIIs).

BOX 2

ESRB "warnings", "recommendations" and "opinions"

Warnings:

Warnings are issued when the ESRB identifies emerging systemic risks that could disrupt financial stability. Their main purpose is to draw the attention of the competent authorities to these risks, without imposing specific actions. They may be addressed to specific recipients, such as national or European authorities, or published in order to raise awareness among the general public, however, they do not require a response or action from the recipients.

Recommendations:

Unlike warnings, ESRB recommendations explicitly call for specific measures to manage an identified risk. They are of a more detailed and operational nature, often setting deadlines for implementation and expected results. Recommendations are based on the 'comply or explain' principle: recipients must either implement the recommendations or publicly justify their refusal to do so. This mechanism provides an incentive for the authorities concerned to take action or represents, at the very least, a way of preventing a "bias towards inaction".

Opinions:

ESRB opinions are non-binding consultative positions that provide analysis or technical expertise on financial stability issues. They do not call for immediate action but are intended to guide the discussions and decisions of European authorities.

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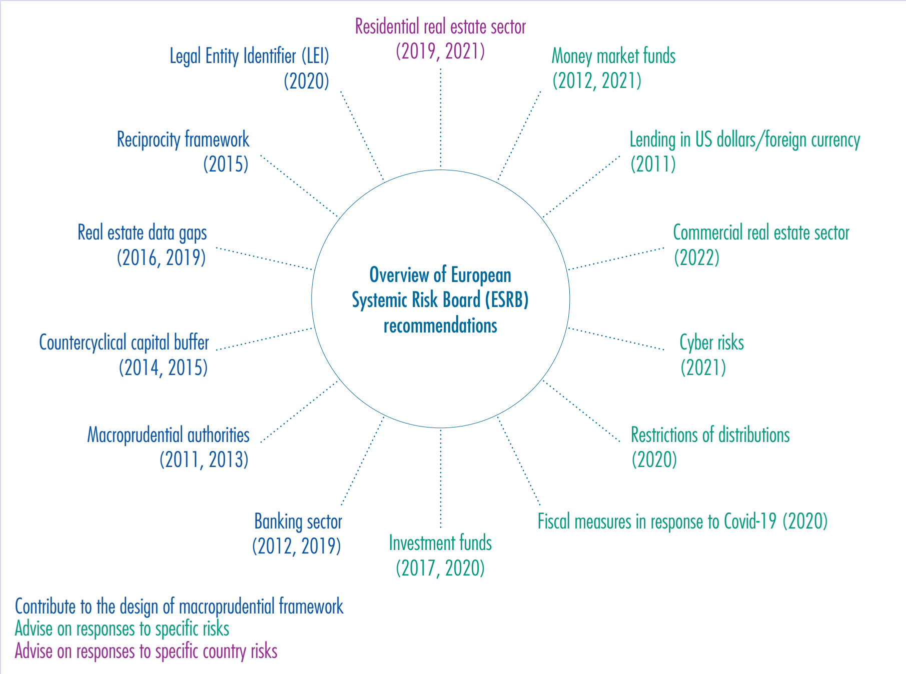
Overview of recommendations adopted by the European Systemic Risk Board (ESRB)



Source: European Systemic Risk Board (ESRB). Layout by the Banque de France.

3 The ESRB's remit is set to expand to reflect the broader macroprudential perspective and the quest for greater efficiency

Changes in the financial system, particularly the rise of non-bank financial institutions, require adjustments to the ESRB's missions and organisation. A high-level working group (Rehn et al., 2024) has made recommendations, which stop short of calling for a different institutional framework.[18] Two recommendations, adopted in June 2025 by the ESRB General Board,[19] are particularly noteworthy.

First, to develop a general framework to strengthen the systemic approach to macroprudential policy, in particular based on a holistic risk assessment. This approach is consistent with conceptual work combining entity-based and activity-based oversight (see section 2, "The ESRB contributes to systemic risk assessment within the financial system"). The ESRB will therefore advise the European legislator to ensure that all systemic risks are properly taken into account over time, including those related to changes in the financial system. For example, in November 2024, the ESRB noted that the growth in lending activities by non-bank entities could justify the implementation of a set of rules applicable to all lending activities (and not just bank lending).

Second, to deploy systemic and intersectoral stress tests at European level to assess systemic risks. These exercises, which simulate the effects of severe but plausible shocks, would enable vulnerabilities to be identified at an early stage by mapping the manner in which shocks could spread within the European Union's financial system. This approach would strengthen the ESRB's risk identification function by adding a dynamic analysis of interconnections (between banks and investment funds, for example). This would change the ESRB's role in designing stress tests. Up until now, it has developed the macro-financial scenario and sectoral authorities have calculated the impacts for

18 See Agnès Benassy-Quéré (2018) concerning High-level working group Recommendation 3.
19 ESRB press release of 3 July 2025.

the institutions concerned in the crisis simulation exercises (see ESRB, January 2025, "Specific publications"). Under this reform, the ESRB would, for the first time, conduct system-wide stress testing, separate from the tests conducted by sectoral authorities.

The future effectiveness of the ESRB will therefore depend on how it unlocks synergies with member authorities, in line with the principle of subsidiarity,[20] with a view to a more agile modus operandi.

In particular, the ESRB could enhance its risk identification function by focusing its efforts on areas where a joint assessment and possibly joint action are needed.

The ESRB's work should therefore focus on ensuring greater complementarity with the analyses and tools developed by its members, which can be harnessed to promote financial stability at European level. For example, the ESRB could incorporate the lessons to be learned from exploratory stress testing conducted at financial system level, similar to the testing performed on the Paris financial market, initiated jointly by the Banque de France, the AMF and the ACPR (see ACPR, 2025). The ESRB could also use the analytical tools developed by the Eurosystem. In any case, the essential prerequisite for any progress in this area is more effective data sharing, which the European legislator intends to promote by establishing a dedicated framework.[21]

The risk assessments prepared by the ESRB, in particular through the quarterly publication of the ESRB risk dashboard, could therefore benefit from more effective coordination with those conducted by its members, particularly the ECB. This requirement is in line with the simplification imperative the European Commission has placed at the heart of its legislative programme and relayed by various authorities in their respective domains. As regards the ESRB, on the one hand, this requirement means a rethinking of its specific role within the European System of Financial Supervision following the creation of the Single Supervisory Mechanism and Brexit. On the other hand, the ESRB must streamline its operating and internal processes in order to enhance its effectiveness. It will therefore need to ensure that there is greater complementarity between its work and that of its members, especially the ECB, which has assumed a leading role in analysing financial stability risk and guiding macroprudential policy at the European level. This is particularly apparent in its twice-yearly Financial Stability Review and in its own macroprudential powers in the banking sector. Targeted adjustments will help to avoid duplication and ensure optimal use of resources.

The ESRB could also strengthen its understanding of non-standard risks through more extensive use of a forward-looking analytical approach. This would employ scenarios based on short-term (particularly geopolitical) threats on the one hand, and longer-term (demographic, technological, etc.[22]) trends on the other. For example, the ESRB could increase the monitoring of risks related to fluctuations in energy and commodity markets, or hybrid threats that could affect financial infrastructure, in order to factor in geopolitical tensions.

In conclusion, the ESRB needs to adopt a more agile approach to achieve the dual objectives of broadening the macroprudential perspective and achieving greater efficiency. This should change both the balance and reciprocal relations between European and national authorities. This approach gives rise to two observations regarding non-bank intermediation (whose growing importance for financial stability is now widely recognised). First, the prevention of systemic risks related to asset management at European level requires a more thorough analysis of interconnections in which the ESRB needs to play its part (see above). Second, it appears that the development of a macroprudential supervisory framework adapted to investment funds requires a greater and more prominent role for the supervisory authority, the European Securities and Markets Authority (ESMA[23]; see European Commission, 2024).

20 Understood as a division of powers between EU Member States and European institutions, limiting the latter's power to intervene in areas where authority is shared.
21 See Regulation (EU) No. 2025/2088 of 8 October 2025.
22 See ESRB (April 2024 and May 2023), "Specific publications".
23 See Haas et al. (2024).

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