Norges Bank Investment Management

European Banking Authority
Tour Europlaza
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92400 Courbevoie
France

Date: 15.09.2025

European Insurance and Occupational Pensions Authority
Westhafenplatz 1
60327 Frankfurt am Main
Germany

European Securities and Markets Authority
201-203 Rue de Bercy
75012 Paris
France

Consultation on Joint European Supervisory Authorities (ESAs) Guidelines on ESG Stress Testing

We refer to the joint consultation on Guidelines on ESG Stress Testing by the European Banking Authority, the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority, together the European Supervisory Authorities (ESAs). We welcome the efforts to harmonise the integration of ESG risks into supervisory stress testing activities and to enhance coordination between supervisors across different financial sectors.

Norges Bank Investment Management (NBIM) is the investment management division of the Norwegian Central Bank and is responsible for investing the Norwegian Government Pension Fund Global. NBIM is a globally diversified investment manager with USD1,739 billion at 31 December 2024 invested in over 8,000 companies, including listed financial institutions supervised by the ESAs and relevant competent authorities. As a long-term investor, our returns depend on sustainable economic, environmental, and social development, and on well-functioning and efficient markets.

ESG risks demonstrate financial materiality across major asset classes, including equity, and corporate debt. Our exposure spans the entire transmission chain from insurers through to banks and real economy companies. Rising insurance losses may threaten insurer profitability and stability. When insurers withdraw coverage, banks may face weakened collateral and higher credit losses. This could lead to real economy companies bearing higher capital costs, reduced property values, and uninsurable risks which may impact our equity returns.

NBIM emphasizes that supervisors should consider how they incorporate ESG stress test results into supervisory processes and policies. While ESG stress testing is useful to assess the resilience of financial institutions' capital, liquidity positions, strategy and business model, the results should be used to incentivize rather than penalise climate action. In particular, ESG stress tests should not trigger indiscriminate capital withdrawal from sectors and counterparties that need financing to decarbonize and adapt. Instead, stress tests should encourage financial institutions to engage proactively with counterparties on credible transition and adaptation planning. We adopt this approach in our Climate

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Action Plan. We believe that our engage-to-change approach will yield the best financial results for the fund and will also contribute to improved real-world outcomes. We engage with the highest emitters in our portfolio on how they can achieve net zero emissions by 2050. We want to support our portfolio companies in delivering long-term financial value and adapting their business models towards achieving this ambition.

Please find in the annex our comments on relevant questions. We thank you for considering our perspective and remain at your disposal should you wish to discuss these matters further.

Yours sincerely

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Annex: NBIM Response to ESA Consultation on ESG Stress Testing Guidelines

Question 3: Comments on Materiality Assessment (Paragraphs 16-18)

NBIM supports the risk-based approach outlined in paragraphs 16-18 for materiality assessment. However, we believe competent authorities should address certain limitations to help financial entities perform robust risk identification processes, and to facilitate the authorities' own identification of relevant material ESG risks for inclusion into stress tests.

A critical limitation in climate stress testing is limited visibility into national and corporate counterparty adaptation plans and assumptions about insurance coverage availability. These blind spots affect the accuracy of materiality assessments and stress test results.

Adaptation and resilience are a key focus in NBIM's climate change expectations of companies[1]. We expect companies to analyse and disclose how increasing physical climate risk could drive the need for investments in adaptation and resilience in their operations and value chains, including the long-term viability of assets. Companies should also explain whether their main adaptation needs are likely to be met by government investment. In our experience, firms often lack disclosures on physical climate adaptation plans.

The lack of visibility on corporate adaptation plans is compounded by unclear assumptions around insurance coverage. Markets may underestimate the speed and scope of insurance withdrawal as insurers increasingly withdraw from entire regions rather than simply repricing coverage. While increased premiums alone may not trigger material disclosure thresholds, the broader implications of loss of coverage for certain perils or locations may represent material asset value impacts.

The Canadian Office of the Superintendent of Financial Institutions' 2024 Climate Scenario Exercise revealed limited capabilities of Deposit-Taking Institutions and Life insurers to integrate location-specific physical climate risks into credit, underwriting and risk management decisions as well as a lack of systematic collection of flood insurance information for collateral properties.[2] We also note the UK Prudential Regulation Authority's recent consultation on climate-related risk management proposes that banks should clearly articulate their assumptions regarding insurance and government intervention, including:

- The withdrawal of property insurance from physically exposed regions and assumptions about government backstops.
- Assumptions around publicly funded adaptation measures such as coastal defences.[3]

Recommendation: Supervisors should ensure that financial institutions adequately monitor significant changes in their counterparties' insurance coverage—including locations, perils, and coverage limits. This information may impact the cost of capital of corporate counterparties through reduced debt capacity and asset valuation adjustments, which affect banks' collateral values. Supervisors should

[1] NBIM Climate change expectations of companies

[2] Office of the Superintendent of Financial Institutions Strengthening Climate Risk Financial Resilience: Insights from the Standardized Climate Scenario Exercise (September 2025)

[3] Bank of England PRA Draft Supervisory Statement – Enhancing banks' and insurers' approaches to managing climate-related risks – Update to SS319 (April 2025)

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require financial institutions to clarify their assumptions on insurance and government provision of adaptation used for climate risk assessment and stress testing.

Question 4: Comments on Title II - Requirements regarding consistency, long-term considerations and common standards for assessment methodologies in stress testing of ESG risks - 4.1 Objectives

NBIM fully supports the emphasis in paragraph 23 on interconnection and the need for competent authorities to coordinate across financial sectors and identify transmission channels. Building on our comments on Question 3, limited visibility on adaptation plans and insurance coverage creates regulatory blind spots that affect cross-sectoral risk transmission assessments.

Recommendation: When assessing spillover effects, competent authorities should ensure consistent application of assumptions about insurance availability and government adaptation measures across sectors, with proper coordination between supervisors. This coordination is particularly important in jurisdictions without an integrated financial supervisor for both banks and insurers. Consistent assumptions are essential for evaluating the loss-absorption capacity of financial entities. For example, insurance withdrawal can create cascading effects throughout the financial system that extend beyond the immediate impact on insured entities.

Question 6: Comments on Scenario Design and Application (Paragraphs 30-33)

NBIM fully supports the need for competent authorities to consider integration of compound risks and second-round effects into stress test scenarios. Current market models estimate financial entities' losses from physical climate risk by aggregating individual company net climate costs at the portfolio level. These approaches inherently fail to capture the systemic macroeconomic effects that climate change are likely to generate.

NBIM's experience using such climate value-at-risk (CvaR) models to estimate physical risk losses showed implausibly low loss estimates even for higher temperature scenarios, with surprisingly limited variation across different physical risk scenarios. To address this, we developed an internal top-down approach that factors in second-round effects.

Stress testing our US equity portfolio against a Current Policies scenario (potentially 3°C warming by 2100) using both approaches yielded markedly different results: our internal top-down approach estimated 19% average expected losses (27% at 95th percentile), compared to only 2% (3% at 95th percentile) using the CvaR approach.[4]

We believe the higher losses from our top-down approach are more credible, as the estimation includes a wider range of chronic economic impacts. However, both approaches underestimate physical climate risk, as current damage functions fail to capture losses from systemic climate impacts and neither considers how adaptation measures could reduce losses.

[4] NBIM Climate and natures disclosures 2024

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Recommendation: Competent authorities should prioritize developing and using scenarios that capture compound risks and second-round effects, recognizing that current market approaches may significantly underestimate actual physical risks.

Question 8: Comments on Level of Granularity (Paragraphs 37-40)

We believe that competent authorities should address limitations in geographical and jurisdictional granularity that affect:

1. Physical risk assessment: The lack of asset-level geographical location specificity affects scenario analysis results. In our portfolio, asset-level geospatial data are available for 68% of our portfolio companies (representing 77% of the fund's net-asset value). The remaining data gap arises from the lack of corporate disclosures, which is why we expect companies with concentrated physical assets to disclose location data.[5] We also highlight that nature-related impacts and dependencies vary by location, hence we require insight into companies' broader geographical footprint beyond their country of listing or incorporation.[6]

2. Transition risk assessment: Current market approaches by prudential authorities focus on sectoral analysis, which fails to account for carbon taxes and climate policies being set at the jurisdictional level. Assuming a single global carbon tax affecting sectors uniformly is unrealistic. We believe a company's main market and sector taken together can indicate its material sustainability risks - a premise that underpins the country-sector risk model we use to assess sustainability risks across our portfolio.[7]

Recommendations:

- Competent authorities should encourage supervised entities to collect geolocation data on concentrated and/or collateral assets from counterparties.
- Assessment methodologies should account for jurisdiction-specific policy differences rather than relying solely on sectoral classifications.
- Stress testing frameworks should incorporate assumptions about adaptation and mitigation measures and their effectiveness.

Question 11: 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

We believe paragraph 44's emphasis on managerial actions of financial entities and avoiding excessive reliance on optimistic assumptions should be anchored by robust board governance of ESG risks. Governance quality critically impacts financial entities' ability to identify, respond to and mitigate risks.

Boards need adequate understanding of internal ESG stress tests, especially if competent authorities use a bottom-up approach. This includes understanding inputs, assumptions, scenario selection

[5] NBIM Climate change expectations of companies
[6] NBIM Climate and nature disclosures 2024
[7] Responsible investment Government Pension Fund Global 2024

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rationale, outputs, limitations, and sources of uncertainty to ensure proper interpretation of results. Boards should also understand how stress test results inform risk limits and capital setting requirements. This governance oversight is essential for both objectives outlined in paragraph 15.

Recommendation: Competent authorities should strongly encourage boards to develop the skills and competencies to understand ESG stress testing methodologies and their application in decision making. This enables boards to exercise appropriate oversight of supervisory ESG stress tests.

Regarding paragraphs 60-61 on integration into the supervisory process, competent authorities should consider how stress test results can be used to formulate policy recommendations that incentivise financial flows supporting decarbonisation and adaptation measures.

Critically, stress tests should not result in penalising actions that lead to the indiscriminate withdrawal of capital from geographical areas, sectors, or corporate counterparties, thereby depriving them of financing needed to decarbonise and adapt. Instead, competent authorities should encourage financial entities to engage proactively with corporate counterparties to develop credible transition plans and adaptation plans.

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