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An EU Prudential Framework for Slow-Burning Risks Drivers



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An EU Prudential Framework for Slow-Burning Risk Drivers

Abstract

We discuss the relevance of "slow-burning risk drivers" (SBRDs) and their possible treatment by ECB supervision. SBRDs are promoters or facilitators of bank risk which build up gradually over time and exert influence beyond standard supervisory timelines. We argue that SBRDs have increased in importance, that frontloaded prudential action has value and hence that they need to be brought more explicitly into the ECB's supervisory approach. We suggest ways to do so using the existing micro- and macroprudential toolkits.

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LIST OF ABBREVIATIONS

BCBS	Basel Committee on Banking Supervision
CCoB	Capital Conservation Buffer
CCyB	Counter Cyclical Buffer
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
D-SIB	Domestic-Systemically Important Bank
D-SSR	Directorate Supervisory Strategy and Risk (part of ECB supervision)
EBA	European Banking Authority
ESRB	European Systemic Risk Board
FSB	Financial Stability Board
FSR	ECB Financial Stability Review
GFC	Global Financial Crisis
G-SIFI	Global-Systemically Important Financial Institution
G-SIB	Global-Systemically Important Bank
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
IRRBB	Interest Rate Risk in the Banking Book
JST	Joint Supervisory Team
LCR	Liquidity Coverage Ratio
LSI	Less Significant Institution
NBFIs	Non-bank Financial Institutions
NCA	National Competent Authority (for banking supervision)
NDA	National Designated Authority (for macroprudential policy)
NGFS	Net Stable Funding Ratio

NGFS	Network of Central Banks and Supervisors for Greening the Financial System
O-SII	Other-Systemically Important Financial Institution
P2G	Pillar 2 Guidance
P2LR	Pillar 2 Leverage Ratio Requirement
P2R	Pillar 2 Requirement
SBRD	Slow-Burning Risk Driver
SEP	Supervisory Examination Programme
SI	Significant Institution
SREP	Supervisory Review and Evaluation Process
SSM	Single Supervisory Mechanism
SSMR	SSM Regulation
SyRB	Systemic Risk Buffer

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EXECUTIVE SUMMARY

- In its first decade, **the Single Supervisory Mechanism** (**SSM) successfully addressed bank legacy conditions** focussing on **balance sheet repair** and largely dealing with inherited **short-term risks**.
- With this foundational purpose largely achieved, **more attention can now turn to new risk sources threatening banks over longer time spans.**
- We call **"Slow-Burning Risk Drivers" (SBRDs) factors that build up risks incrementally over time**, **adversely affecting the viability of banks beyond normal supervisory timelines**. Slow-Burning Risks, or **SBRs**, are risks that arise for banks from such factors.
- We argue that **SBRDs are increasingly important due to financial, economic, technological, environmental and geo-political developments**. We provide a detailed discussion of such **SBRDs**, including their **definition, characteristics, categorization, and the channels through which they influence bank risks**.
- The SSM is already becoming more sensitive to forward-looking risks recently. To further this stance, we propose **bringing SBRDs systematically into account in the ECB prudential framework** as follows:
  - **SREP** (Supervisory Review and Evaluation Process, the core SSM process leading to the determination of the prudential requirements) **would be augmented by adding an additional chapter:** a structured analysis of **Sustained Threats** to bank stability, their **Impacts** on banks and their possible **Remedies;** in short **STIR**.
  - **STIR** would include a **structured dialogue between ECB supervisors and individual banks' management** based on **three questions**:
    1. Which exogenous drivers (possibly drawn from a pre-arranged list) do you consider relevant as ***sustained threats*** to your bank, and why?
    2. What do you expect the ***impact*** of these drivers to be on your bank, and through what channels?
    3. What ***remedies***, if any, do you already have or plan to have in place to manage these risks or mitigate their impacts?
  - **STIR results would feed into SREP conclusions**, including communication, supervisory requirements, guidance and other recommendations addressed to each bank.
  - Enriched by STIR, **SREP would inform both microprudential and macroprudential policy**.
- As a guide, we provide a detailed mapping **on how specific findings from STIR could translate into policy actions, using existing microprudential and macroprudential tools**.

1. INTRODUCTION AND MOTIVATION

Supervision of banks, and other financial institutions, is a complex task. Banks engage in many activities, greatly differ in their business models, and can respond quickly to context changes and regulatory and supervisory decisions. Importantly, the world is rapidly changing, with tectonic shifts and shocks altering the environment within which banks operate. Facing these challenges, supervisors face a big asymmetry: their merits in containing bank risks are rarely recognized in the public eye, yet they are harshly punished when those risks become manifest, especially if taxpayers are hurt.

The task is further complicated by the fact that the information on which supervisory decisions are largely based on backward-based elements (e.g., information on the current state of the supervised entities' balance sheet and income statements, which reflect past decisions). Mandates and other legislation providing the legal basis for their decisions furthermore mostly refer to backward-looking data on bank conditions and actions. Supervisors are more exposed to reputational (and legal) risk when acting in a forward-looking mode. Yet, risk is inherently forward-looking and supervisors whose prudential assessment is not forward-looking may fail in their central function. As long recognised by supervisors and policy makers, including in the EU, including forward-looking elements in banking supervision reduces risks and enhances resilience over the longer term (e.g. Hernandez de Cos, 2026, Balan et al. 2025 and Dahlgren et al. 2023). And when the time horizon of the relevant risks lengthens, as we argue to be the case, the supervisory horizon must lengthen as well.

The Single Supervisory Mechanism (SSM), overseeing banks in the euro area (EA) and non-euro area Member States opting in the SSM, already takes forward-looking elements into account. However, as we argue in section 2, there are limits. The SSM Regulation[1], the piece of legislation which in 2013 gave the ECB microprudential and macroprudential powers, was written when the overriding priority was fixing legacy problems of the euro area banking sector and restore its viability. This led to ECB supervision's backward and present-leaning imprint which still permeates its approach. Relatedly, many of the analytical tools and instruments in use have in-built limits in the horizon they consider. Most EU-wide stress tests do not go beyond three years.[2] Three years is also the horizon of bank business plans that ECB staff vet as part of their all-encompassing supervisory examinations. While there is no formal limit preventing staff to look beyond three years, de-facto their supervisory span rarely goes beyond that.

By contrast, there are many drivers that exert most of their adverse risk effects at longer horizons. We call these *slow-burning risk drivers* (SBRDs) and define them as drivers that lead to risks that build up gradually over time and exert their adverse influence much beyond standard banking and supervisory timelines. We correspondingly define *slow-burning risks* (SBRs) as the various possible ways in which bank balance sheets and profit/loss statements are adversely affected by those drivers directly or indirectly.

Since SBRDs are a relatively new concept, section 3 proposes a definition of them and a tentative classification, discusses their characteristics and properties and reviews their potential manifestations and adverse impacts, including the channels through which they potentially endanger the viability of EU banks. A first category of SBRDs includes structural developments (e.g., technology, changes in financial services provision, such as more non-bank financial intermediation, NBFI) that when sustained

[1] Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the ECB concerning policies relating to the prudential supervision of credit institutions, available here: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32013R1024.

[2] This horizon applies to the regular EU-wide stress test coordinated by the EBA. However, the ECB's 2022 climate risk stress test required banks to also create projections with a horizon until 2050 (albeit with limited granularity). More information available here: https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.climate_stress_test_report.20220708~2e3cc0999f.en.pdf.

can cause threats to financial stability (e.g., arising from market disfunctions, dislocation of financial services). The second one includes disruptions in economic and financial systems that are exogenous to the financial system. This category includes geoeconomic disruptions to the trading system and value chains (e.g., higher tariffs and trade prohibitions), financial sanctions, changes to the global financial safety net (e.g., less central bank cooperation), and changes in competitiveness (e.g., excessively high real wages, sustained productivity losses) with adverse financial and real corporate sector impacts. The third category comprises non-economic factors, such as climate-related shocks, health and political crises, wars, and other state-sponsored threats (e.g., cyber), with adverse impacts on financial stability. Finally, a fourth category covers policy-related spillovers, including climate transition or other (e.g., tax) policies that directly affect banks, and long-term spillovers from monetary (e.g., changes due to sustained inflation or deflation risks) and fiscal policy (e.g., fiscal dominance leading to capital controls or other forms of financial repression) that directly and indirectly affect banks.

A common feature of SBRDs is that early remedial action is valuable, because the lead time to make the required changes can be long and actions can take a long time to have effects. However, we argue that any frontloaded action must be carefully considered depending on the observability and quantification of the risks involved, their probability of occurring and the expected time frame of their manifestation.

Section 4 details our policy recommendations. Our main suggestion is to integrate SBRDs into the SSM supervisory process by augmenting the four existing chapters of the **SREP** (Supervisory Review and Evaluation Process, the core SSM process leading to the determination of bank-specific prudential requirements) with a fifth one: a structured analysis of **Sustained Threats** to bank stability, their **Impacts** on the bank and the possible **Remedies,** in short **STIR**. Joint Supervisory Teams (JSTs) would engage in a structured dialogue with each supervised bank on what external conditions constitute sustained threats to the bank; what impacts are expected and what remedies, if any, are already planned. STIR would combine with other SREP chapters in determining Pillar 2 supervisory requirements and guidance. We suggest a framework that could be used to map the four SBDR categories into existing supervisory risk chapters and policy instruments.

Section 5 concludes noting that a more long-term sensitive prudential framework should not imply additional complication of the supervisory process, or additional burden for SSM-banks. This calls for combining STIR with a simplification and streamlining of the supervisory processes.

2. OVERVIEW OF THE ECB SUPERVISORY FRAMEWORK

The mandate, focus and internal structures of ECB supervision were heavily influenced at its establishment by the economic conditions and policy needs at that time. We revisit these briefly.[3]

After starting to recover from the Global Financial Crisis (GFC), the euro area economy returned to negative growth accompanied by a sequence of financial and sovereign debt crises: Ireland first, followed by Greece, Portugal, Spain and Italy. Each in its own way, national banking sectors were endangered by combinations of three factors: weak supervision, overdependence on state support, and the lagged effects of the global recession. The related heightened risks of a euro breakup led in June 2012 to the decision by political leaders to centralise banking supervision in the ECB with three goals: strengthening banking supervision, making it consistent across countries, and breaking the adverse loop between national banks and respective sovereigns.

The design of the Single Supervisory Mechanism (SSM) was guided by best practices and the prescriptions of global standard setters, primarily the Basel Committee on Banking Supervision (BCBS) and the Financial Stability Board (FSB), which focused on strengthening regulatory practices by applying the lessons from the GFC.

The rest of the section helps understand why SBRDs are not properly addressed in the current SSM framework. We first outline the mandate and priorities of the SSM (2.1), then overview its supervisory processes (2.2), next zoom in on the most important process, the Supervisory Review and Evaluation Process or SREP (2.3) and the setting of microprudential requirements (2.4), and finally describe the macroprudential framework (2.5).

2.1. SSM mandate and supervisory approach

Article 1 of the 2013 SSM Regulation (SSMR) sets the goal of ECB supervision: "... *contributing to the safety and soundness of credit institutions and the stability of the financial system within the Union and each Member State*." The article specifies that the goal must be achieved while safeguarding the integrity of the internal market and equality of treatment across countries and banks.

The "safety and soundness" goal is mentioned multiple times in the SSMR. Recital 12 specifies another SSM responsibility: "*As a first step towards a banking union, a single supervisory mechanism should ensure that the Union's policy relating to the prudential supervision of credit institutions is implemented in a coherent and effective manner, that the single rulebook for financial services is applied in the same manner to credit institutions in all Member States concerned, and that those credit institutions are subject to supervision of the highest quality, unfettered by other, non-prudential considerations*." The goals are thus not only stabilising the system, but also making supervision coherent and effective, thus addressing long-standing weaknesses in national supervision. The ability to override "non-prudential considerations" reinforces the focus on these goals.

In theory, the notion of "safety and soundness" does not preclude a forward-looking approach, including SBRs. A comprehensive approach encompassing those drivers is necessary to make the system truly "safe and sound". In practice, however, the contingencies leading to establishing the SSM in the first place and the tone of the SSM Regulation suggest that the mandate largely focussed on fixing past problems, rather than being concerned about drivers of future risks.

[3] All material in this section is factual and known from official publication: readers already familiar with them can move directly to section 3.

This interpretation is confirmed by actions undertaken by the SSM in its early years (for example, its action plan on non-performing loans (NPLs), a flagship project launched at the outset). It is also confirmed by multiple official statements. For example, the first SSM chair, Danièle Nouy, stated in May 2014: "*Our first and more immediate challenge is to help rebuild confidence in the balance sheet of SSM area banks*" (Nouy, 2014). Accordingly, the supervisory structures were staffed with hands-on, work-ready line supervisors, largely transferred from national supervisors. At its inception, no research units were included in the SSM. In contrast, research units are present in the macroprudential area, which is part of the monetary policy "wing" of the ECB (we return to the organizational setting below). More recently, however, some research-related activities are conducted within the SSM (by D-SSR) and links with research functions elsewhere in the ECB have been established through regular engagements and SSM dedicated work programmes.

With hindsight, the single prudential focus on balance sheets was necessary and ultimately proved fruitful. The SSM was remarkably successful in restoring in a short time the safety and soundness of banks and investor confidence in them. The less favourable side of it is that it did not prepare it well for the new conditions and priorities that would emerge later, from the 2020s. With the legacy issues now largely resolved, the SSM must make its approach more forward-looking to meet the challenges discussed in the next section. This requires revisiting the prudential focus to encompass long-term drivers of risks, SBRDs.

2.2. The SSM supervisory cycle

ECB supervision is organised around annual cycles, the Supervisory Examination Programme (SEP), and conducted by groups of examiners, the Joint Supervisory Teams (JSTs). The key output of the annual SEP cycle is the SREP, the procedure from which the micro-prudential requirements are derived, described in the next part. Macroprudential requirements follow a different process, described in section 2.5.[4]

Each JST is responsible for one bank. It is led by an ECB staff member (the JST coordinator) and composed of national supervisors (NCB sub-coordinators) and ECB experts. The JST is responsible for planning and conducting the yearly supervisory process: planning and executing off-site analyses and on-site inspections (for which there is a dedicated unit), conducting regular dialogues with bank managers, ensuring the liaison with the ECB structures including the Supervisory Board, and of course executing the SREP. It is a JST responsibility to identify the risk drivers the bank faces and organize the supervisory cycle around them. The JST prepares draft decisions regarding the bank, which are then submitted to the Supervisory Board and to the ECB Governing Council on a no-objection/silence-consent basis). SEP is planned at the start of the year and discussed with the bank and then executed during the year.

JST members are grouped in three ECB business areas, each focusing on three distinct categories of banks (systemic and international; universal and diversified; and specialized). They are assisted by another business area providing expertise on supervisory methodologies, organized by areas: credit risk, market risk, capital planning, stress testing, etc. This configures a "matrix type" organizational structure in which "vertical areas" are bank-specific while the "horizontal" area is organized according to supervisory chapters, with the purpose of ensuring methodological consistency and equal treatment across banks (always respecting the specificities of different banks' business models).

[4] Our focus is on banking groups under the SSM's direct remit: the Significant Institutions, or SIs, which as of June 2026 are 110. Most considerations we make apply to Less Significant Institutions (LSIs) as well.

The dialogue between the JST and the bank must ensure that both the supervisor and the bank's management are constantly aware of the risks the bank faces in implementing its own business model. This dialogue must develop in full respect of the autonomy of the bank in determining that business model. The choice of business model is an independent decision of the bank, but its sustainability is a matter of common concern for the bank and the supervisor, the latter being statutorily responsible in the collective interest for the safety and soundness of banks. This implies a delicate equilibrium; the JST should be alert to developments in the bank but not be too invasive. It maintains contact with managers and administrators as needed, occasionally being an observer in its board meetings. The JST's assessment is conveyed to the SSM Supervisory Board, which makes the JST its "eyes and ears" within the bank.

To keep the prudential framework up to date and adaptable, in addition to all the other tasks already mentioned the SSM Supervisory Board regularly undertakes various forms of communication, representing soft forms of supervisory interventions. Of special importance are the "supervisory priorities", communication signalling to markets and public opinion the areas that ECB supervision considers most important going forward. Supervisory priorities are supposed, over the next three years, to guide the line supervisors in designing their SEP and executing their work.

2.3. SREP methodology

SREP is the core of the supervisory process. It is normally conducted over the Winter-Spring period and completed in the Summer. Preliminary conclusions are transmitted to the bank in October and published in November, with requirements entering into force at the beginning of the following year.

SREP examines the bank's viability retrospectively (considering its past performance as to risk management and responses to supervisory requirements) and prospectively[5]. Forward-looking risks are assessed over the near-term horizon (usually a few months), using ICAAP and ILAAP (Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process respectively) as inputs, and stress tests (horizon up to 3 years).

SREP is organised around four main chapters, each looking at risks from a specific angle (ECB, 2024b): Business model; Internal governance; Risks to capital; Risks to liquidity and funding.

These four *main chapters* are a mix of drivers and resulting risks. Risk to capital is further broken down into 4 *sub-chapters*, each potentially leading to capital depletion: credit risk, stemming from potential insolvency of counterparties; market risk, stemming from short-term fluctuations in the value of marketable assets; operational risk, relating to possible failures of IT or other operating infrastructures; interest rate risk in the banking book (IRRBB), measuring the exposure to interest rate fluctuations of the return from traditional intermediation.

We do not question these four long-standing chapters and their related, generic risk categories.

The main chapters and sub-chapters are first assessed and scored separately, then combined into a single synthetic score. Initially, each chapter is assigned a provisional 1 to 4 risk score (1 being the lowest risk or safest level). Qualitative information is then added, to assess the ability of the bank to control its risks. Again, on a scale 1 to 4.

Stress tests provide input to SREP by specifically measuring the sensitivity to stressed economic situations. Methodology and scope of stress tests alternate every two years. In odd years, the EBA conducts stress tests on a subgroup of banks, using scenarios provided by the European Systemic Risk

[5] Its most recent methodology can be found: https://www.bankingsupervision.europa.eu/activities/srep/2025/html/ssm.srep202511_supervisorymethodology2025.en.html#toc32

Board (ESRB), and the ECB complements by stress testing the remaining banks under its supervision using the same methodology. In even years, thematic tests are conducted by the ECB to analyse specific sources of risk. Stress test results are published on a bank-by-bank basis by EBA and in summary and aggregate form by the ECB.[6]

The ECB conducted a review of the SREP methodology in 2023, consulting the industry and commissioning a report by external experts (Dahlgren et al., 2023). Changes following the review (ECB, 2025, Buch, 2024a) are rather limited and specific, mainly streamlining the determination of the P2R, better integrating qualitative information, enhancing the use of IT, and improving communication. Also, the EBA recently published a 3rd revised version of the SREP guidelines.[7]

2.4. Setting the microprudential requirements

All banks are subject to a first layer of statutory capital requirements, known as Pillar 1 Requirements or P1R. While the applicable minimum ratios are fixed by law and common to all banks, the corresponding amount of required capital is specific to each bank depending among others on its asset composition.

In its letter to a bank, SREP sets risk-sensitive prudential standards over and above these legal requirements, called Pillar 2. These are divided in two parts, respectively Pillar 2 Requirements and Guidance (P2R and P2G).

P2R cover idiosyncratic risks that can lead to unexpected capital losses, over and above those already covered by P1R. P2R are a required minimum: if not fulfilled, they trigger supervisory actions and possibly sanctions. The methodology to determine P2R was simplified after the review (Buch, 2025a). The new methodology, as of this year, starts by scoring the risk areas, bringing in supervisory judgment in each area, and then determining P2R contributions within ranges risk by risk.

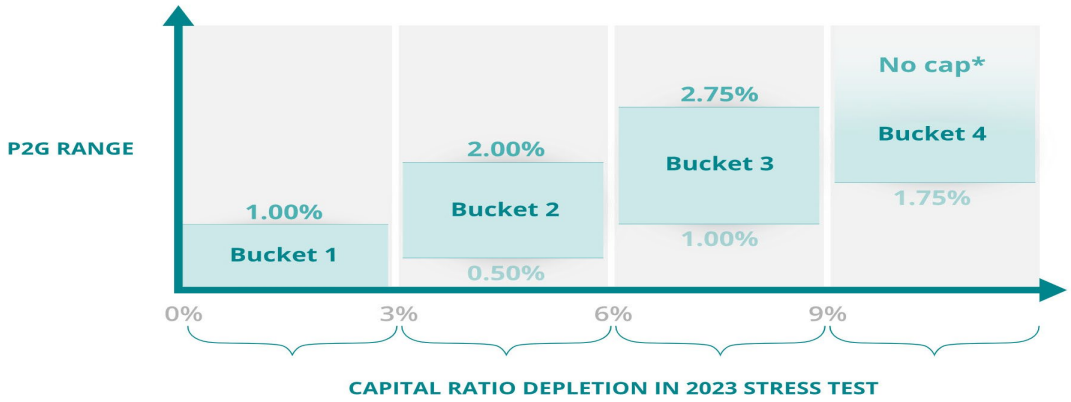
The P2R in force this year (derived from last year's SREP, still with the old methodology) are published on the ECB website for each of the 110 banks under direct supervision (ECB, 2026). The average requirement, expressed as a ratio of risk-weighted assets (RWAs), is 2.31%, a little lower than in the previous year (2.33%; it was 2.23% in 2024). The min to max range this year is 1.0% to 4.5%, as against 1.0% to 3.7% in 2025 and 1.0% to 3.4% in 2024.

Pillar 2 Guidance (P2G), placed on top of the P2R, is a capital recommendation intended to cover risks from adverse scenarios. Unlike P2R, P2G is not compulsory, only recommended. Failure to fulfil the guidance does not automatically lead to supervisory action but may lead to more intense supervisory scrutiny. The determination of P2G (ECB, 2026b) depends on the stress test; banks are classified in four partly overlapping buckets, depending on their capital depletion under stress, each implying a P2G range, as shown in Figure 1 for the 2023 stress test case. The actual P2G, normally within the respective ranges, is set after further qualitative information and judgment.

[6] For EBA see https://www.eba.europa.eu/publications-and-media/publications/2025-eu-wide-stress-test-results and for ECB see https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.Report_2025_Stress_Test_202508.en.pdf.

[7] Available here: https://www.eba.europa.eu/publications-and-media/press-releases/eba-reaches-another-important-milestone-enhancing-supervisory-efficiency-its-revised-srep-guidelines.

Figure 1: Pillar 2 guidance range within each bucket of banks



Source: ECB (2026b).

Some banks are also subject to a Pillar 2 Leverage ratio requirement (P2LR), when supervisors believe the bank has an excessive leverage risk. As of June 2026, only 14 banks out of 110 are subject to an additional P2LR, which itself has a range of 0.1% and 0.3%.

2.5. The macroprudential framework

Macroprudential regulation is meant to control risks generated by the financial sector as a system. Macroprudential analysis considers the effects of contagion among institutions and the two-way transmission of effects between banks and the non-financial economy. Macroprudential policy internalises those contagion and transmission effects to try to correct biased incentives toward risk-taking. The natural focus is on market failures, e.g., "systemic" institutions whose risks affect the rest of the system and on financial cycles, e.g., credit booms and busts.

Macroprudential policy developed largely after the GFC, as excessive collective leverage, liquidity mismatches, risk-taking and contagion were found to be important sources of systemic risk. After that experience, most countries developed institutions and instruments to put macroprudential policy into practice. In the EU, both European (Capital Requirements Regulation (CRR), Capital Requirements Directive (CRD), SSM Regulation (SSMR), etc.) and national legislations were augmented to develop macroprudential instruments, include those in supervisory processes, and appoint authorities delegated to activate those. The ECB has acquired decision-making powers for the Union and hosts the European Systemic Risk Board (ESRB), the EU body deputized to analyse systemic risks and make recommendations on macroprudential policy.

Macroprudential instruments in European legislation belong to four categories: 1) capital requirements, 2) liquidity requirements, 3) borrower-based measures, and 4) other provisions. Capital requirements take the form of countercyclical buffers (CCyB, to require the build-up of capital in phases of excessive credit growth, which can be released in a credit contraction), systemic risk buffers (SyRB, covering structural long-term risks generated by the systemic nature of an institution), global-systemic and other-systemic financial institution buffers (G-SIIs and O-SIIs buffers, capital surcharges related to the specific systemic characteristics) and capital conservation buffer (CCoB, to build up capital during economic expansions which can be drawn down when losses are incurred).

All macroprudential instruments in the EU framework are activated by national authorities especially delegated for the purpose (National Designated Authorities, or NDAs[8]). In addition, the SSMR assigns to the ECB the responsibility to coordinate national actions in this area and the power to "top-up" those instruments – i.e., to adjust them in a more restrictive way. The rationale of the "top-up" provision is to compensate for a supposed "inaction bias" on the part of NDAs. The ECB has, however, never made recourse to the top-up power, preferring to engage in a dialogue with national authorities and let them decide when and how to act.

One problem with the EU macroprudential framework is its fragmentation: decisions on activating and calibrating instruments are left to NDAs. There is no guarantee that those authorities will decide in a consistent way, even though the risks involved, being systemic, are likely to affect multiple countries and exercise significant spillovers from one country to another.

In the early years after the establishment of the SSM, the supposed inaction bias actually proved real: national authorities made little or no use of macroprudential instruments. After the pandemic, more activism seems to have emerged[9]. Nonetheless, as noted by Tuominen (2025), "*... there is still significant room to work within the boundaries of the current framework to achieve a more harmonised macroprudential stance in the EU*". Section 4 discusses whether and how macroprudential policy can also contribute to this area.

[8] Usually NCBs and/or supervisory agencies; see: https://www.esrb.europa.eu/about/orga/list/html/index.en.html).

[9] The ESRB compiles a list of national macroprudential measures here: https://www.esrb.europa.eu/national_policy/html/index.en.html.

3. ON THE MEANING AND GROWING RELEVANCE OF SBRDS

This section defines SBRDs, classifies them by types, reviews their characteristics and properties as well as their potential impact, also by discussing the channels through which they may endanger the viability of banks. It lays the ground for the next section in which a tentative mapping is proposed between SBRDs and policy actions.

Broadening the spectrum of risk factors to include a new class, SBRDs, highlights however questions about the boundary of responsibility of prudential authorities and the factors that may lead the supervisory agency to deviate from its statutory responsibilities. Before getting into these details, a short review of institutional and political economy factors shaping prudential policy is therefore in order. In principle, supervisory mandates reflect societal values regarding stability, efficiency, transparency and accountability, investor protection, and the like. Alongside these broad principles, however, the literature has highlighted economic and political obstacles preventing first best solutions to prevail, resulting in sub-optimal equilibria. As background for the specific proposals that follow, Box 1 offers a short review of academic contributions on the matter.

Box 1: Economics and political economy of regulation, supervisory mandate and accountability

The supervisory agencies' statutory tasks depend in large part on what society has, through its political process, determined regarding what financial institutions and activities should be regulated and, if so, what risks are to be considered as material, and for which tasks agencies are in principle held accountable. Various problems arise, however, in these coverage and assignment choices, and many different institutional arrangements exist to address related agency issues (see e.g., Barth, Caprio, and Levine, 2008; Quintyn, Ramirez and Taylor, 2012).

First, supervisory mandates can be such to weight financial stability too little (preferring too much consumption today) or too much about it (growth opportunities being sacrificed) relative to society's first best. Political and societal drivers making for such deviations from a supervisory "first-best" include historical path dependencies (e.g., legal limits justifiably introduced at some point, but later outdated), or political economy factors skewing risk preferences (e.g., richer people, who may dominate the political process, want ample finance for housing and consequently housing-related risks are underemphasized). In presence of such distortions, supervisory agencies can be assigned skewed objectives.

A second factor also related to "preferences," is regulatory failure. Risks from non-bank finance may not have sufficient constituency to lead to the necessary ex-ante prudential regulatory remedies. Other long-term risks may be "wrongly" ignored in regulation, due to ignorance or biased scientific evidence (e.g., advocates of the "climate change is a hoax" dominating the political setting and regulation thus ignoring this risk). Regulatory failures are more likely if accountability processes are not set up to address all drivers of financial instability (e.g., securities market regulatory agencies are less likely to set rules aimed at overall financial stability). Additionally, the legal backing for supervisory measures may be poorly defined (e.g., interventions are only possible when a bank has passed the point of no viability solely judged based on a narrow accounting definition of insolvency and not on other, more meaningful indicators and behaviours). If there are weaknesses in the process for determining regulation and supervisors only oversee what is regulated, then supervisory agencies are more likely to fall short to address all risk drivers, including SBRDs.

Third, the independence of supervisory agencies and their related accountability matter (e.g., Fraccaroli et al., 2025). However, independence may not be sufficiently guaranteed, legally and

otherwise (e.g., Klomp and De Haan, 2009). There are many reasons for too little supervisory independence (e.g., Barth, Caprio, and Levine, 2014), ranging from legal interpretation , narrow regulatory capture (e.g., lobbying or some forms of bribing) to broader forms such as plutocracy and populism. There can also be state capture, where governments subvert markets and abuse finance to enact hidden forms of taxation, e.g. through "financial repression." And there can be natural organizational biases in supervisory agencies, such as short-termism, not sufficiently accounted for. All this can make agencies less able and willing to address various risks, notably again SBRs.

Fourth, there can be tools, to be used ex-ante or ex-post, under the control of other institutions and agencies for addressing certain risks, which are "better" in that they achieve the desired outcomes at lower overall economic costs. For example, no supervisory agency may have the tools to efficiently address cyber risks posed by state actors, but "national security agencies" could be (more) efficiently do it. Or fiscal and monetary policy tools are more efficient to clean up ex-post when some type of financial instability occurs than supervisors trying to reduce all risks ex-ante. At the same time, these tools may not actually be used effectively, perhaps because they have poor accountability processes themselves or specific time-inconsistencies.

These and similar arguments have implications for how supervision is conducted, potentially of relevance for SBRDs. Even if supervisors manage the specific trade-offs set by the political process well, their actions can fail due to poorly set general objectives or because other, more efficient tools are not sufficiently used. Such distortions could lead supervisory agencies to "over-supervise" as the blame for the manifestations of risks is attributed to the supervisory agency more than to the fiscal or political authorities, or "under-supervise" if excessive reliance is placed on other public entities. Supervisors compensating for other deficiencies can eventually threaten supervisory independence. Conversely, under-supervision is likely to result in a reputational loss for the supervisory agency, when unaddressed financial risks come to the open.

3.1. Slow-burning risk drivers: definition, classification and examples

As suggested in section 2, further enhancing SREP's forward-looking microprudential supervisory tools and approaches, including by bolstering accountability and other governance processes, and using outside experts' inputs, will help reduce any gaps in financial stability risks identification and mitigation. In recent years, the SSM has signalled a movement in this direction (Buch, 2024b).

Nevertheless, there remain drivers of risks not adequately covered in the SREP, which, as we argue in the rest of this section, are gaining prominence as sources of financial stability risks. We call ***slow-burning risk drivers, or* SBRDs**, **factors that generate risks that build up gradually over time and exert their influence beyond standard banking supervisory timelines**. We distinguish *drivers of risks* – factors giving rise to banking risks — from *risks* – manifestations of ways in which banks are adversely affected. We label the latter ***slow-burning risks***, or **SBRs**. This distinction between drivers and their risks is useful here because as the time horizon of prudential policy is lengthened, prudential policy needs to focus not only on the immediate manifestations of risks, but also on the driving factors behind them. Existing EU banking legislation, with its predominant short-term focus, does not make this distinction but refers directly to risks: CRR in particular emphasizes credit risks, but also refers to

governance, risk management, liquidity, funding, counterparty and operational risks.[10] Even if SBRDs are not controllable by financial policy, considering them helps organize timely and effective prudential responses.

SBRDs reflect the local and global environment in which banks operate, and naturally evolve with related conditions. Our reading of experiences, especially after the GFC, suggests that potential drivers of slow-burning risks that have become more prominent in recent years can be put in four categories:

- ***within in the financial system;***
- ***economic-financial factors (outside the financial system);***
- ***non-economic factors;***
- ***spillovers from other policies***.

Many risks arise within the ***financial system*** due to drivers specific to finance (e.g., digitalisation and development of new financial instruments, shifts in services provision such as non-bank intermediation), or from interactions within the financial system that have systemic consequences due to specific market failures (e.g., liquidity shortfalls within the system, asset price booms and busts, credit crunches, market malfunctioning) or from bank-specific externalities (e.g., too big to fail banks). ***Economic-financial*** drivers outside the financial system cover a wide spectrum, ranging from trade disruptions, productivity slowdowns, inefficient or disrupted of value chains, etc. A large range of drivers are ***non-economic*** (e.g., conflicts, pandemics, technological disruptions, demographics). Finally, drivers may involve ***spillovers from other policies***, that is changes in the policy and institutional environments outside the financial system which then affect banks directly or indirectly (e.g., climate transition policies, taxation, fiscal imbalances increasing bank-sovereign links).

In section 4 we present more examples while connecting them to the remedial measures. Meanwhile, in the rest of this section we discuss characteristics SBRDs must possess to be relevant for prudential policy, and the channels through which those drivers generate risks for bank balance sheets.

3.2. Characteristics of slow-burning risk drivers

To be relevant for the conduct of prudential policy, SBRDs must not only be properly defined, but also have *observable* and *quantifiable* (at least in probabilistic terms) impacts on bank risks, and impacts' *properties* and *characteristics* must be sufficiently defined to justify and guide the recourse to supervisory tools. The intensity of prudential measures (e.g., the choice between requirements and guidance, or between formal measures and lighter provisions such as the issuance of supervisory expectations) must depend on the observability of the prospective risks, their probability, quantification and time framework of their prospective manifestation. Important as well, the use to prudential measures can be legally weak without an objective basis and clear motivation, ultimately backfiring and creating reputational and legal risks to the supervisor.

We now discuss some key characteristics of SBRDs which must be ascertained by the supervisor as a condition for acting.

Time horizon. Given the definition of SBRDs (factors whose effects build up gradually and exert adverse influence beyond standard banking and supervisory timelines), the time lag between the driver operating and its manifestations is key. Several reasons suggest as a reasonable "rule of thumb" three years to distinguish SBRDs from conventional banking risks. Three years is the typical time lag between "traditional" origination of loans and them becoming qualified/impaired and potentially non-

[10] Of the four SREP chapters the SSM/SEP uses, liquidity and funding and internal governance risks are explicitly mentioned in the CRR; the other two (business model and risks to capital) are legal interpretations by the supervisor or secondary regulator.

performing. SREP already considers risks over a time span ranging between a few months and three years (exceptionally five years) when using stress tests. Three years is the normal time length of bank business plans which ECB examiners vet as part of their normal activities. These elements suggest that risks within a three-year horizon are essentially already covered by existing supervisory processes. Beyond that boundary, one moves to a domain in which slow-burning risks, driven by current drivers but not yet manifested, dominate. The longer period allows for more time during which the existing drivers can be evaluated, probability and quantification of risk gestation can be determined, and effective remedies can be designed.

While a three-year horizon appears to be a reasonable rule of thumb, some flexibility must be retained. Supervisors must be prepared to act pre-emptively, exercising judgement if needed. Trade-offs among different characteristics must also be considered. Risks with high degree of certainly of occurrence call for pre-emptive action even if their timing is uncertain. For example, demographic trends, which are predictable, but whose risk manifestation are far out into the future, are a case in point. In cases like these, waiting until risks manifest themselves in the banks' performance means acting too late.

Observability, probability, quantification. An important aspect is whether the risk driver is observable and its implied risk quantifiable, at least in probabilistic terms. Stress testing and scenario analyses can usefully be combined in the quantification process – each scenario embodying a specific stress and implying different impacts on banks, with probability estimates attached to each scenario.

It may be the case that certain long-drawn-out risk drivers are already considered by supervisors, but only partially, with reference to specific impacts or to risks within a short time range. The limitation may derive from the analytical tools employed or from the information set considered in the analysis. For example, the ECB has recently conducted work integrating climate risks into its stress tests (ECB, 2025a). Drawing on projections for energy prices, emissions and energy consumption and relevant macroeconomic variables elaborated by the Network of Central Banks and Supervisors for Greening the Financial System (NGFS), ECB staff assessed the impact of energy transition scenarios for default probabilities (PDs) and implied losses (NGDs) of non-financial corporations in the sectors involved. From this, estimates of bank risks and the ensuing impacts on bank capital within a time horizon of three years were obtained. This otherwise valuable exercise nonetheless cannot consider the full range of impacts on banks potentially deriving from climate risks. Limited in scope (one specific channel, energy transition) and in time (less than three years), the results are partial at best. This example applies to other areas, like cybersecurity, crypto, the AI revolution (Aldasoro et al, 2026; Angeloni, 2026), and more.

For each SBRDs a review should therefore be conducted to identify both the immediate impacts already considered in SREP, and the "slow-burning elements" beyond a three-year horizon. The first ones should be detected and controlled for by existing supervisory practices. The more drawn-out risk implications would be part of a separate analysis, as described in section 4.

Manifestations and impacts. A final relevant aspect is the nature of SBRs, i.e., their potential manifestations and impacts. Two groups could be distinguished:

i. *Slow-moving SBRDs but with large and possible irreversible impacts.* SBRDs like demographics move slowly and may not appear to be much of a risk, but they are inexorable and irreversible and over time have large impacts on banks. Many SBDRs also have highly irreversible or very slowly reversible impacts (e.g., climate change and demographics' effects on productivity), making their economic and financial costs higher.
ii. *SBRDs with sudden or discontinuous and severe impacts.* For the financial system, many risks are episodic, yet have very large impacts, as observed (e.g., market malfunction, runs on banks,

financial crises in general). Cyber events are typically sudden and have large impacts, but usually reversible within a short time. Nature-related climate events can manifest themselves in sudden and large destructions of property and value. The episodic nature and large impacts of some SBRDs can be because of hard to predict interactions with other financial, economic and institutional aspects (e.g., the speed, efficiency and credibility of central bank liquidity support can determine whether runs spread and adversely affect other banks or not). Such sudden impacts are also possible for worsening demographics and some aspects of fiscal sustainability, which quickly deteriorate (e.g., when interest rates start to rise), and financial crises (e.g., due to loss of confidence).

Channels of influence. The channels through which SBRDs affect banks are like those for other risks, but a key difference is their timing. SBRDs tend to impact current balance sheets and income less, and more likely future bank viability, directly and indirectly. Timing becomes crucial as to the choice of remedial action. Several cases are possible. In one scenario, the materialization of SBRs (e.g., demographics) can generate over time a growing stream of losses, probably combined with a faster depreciation of human and material capital. Once this eventuality is recognized, the supervisor may require a combination of prudential measures ranging from front-loaded higher capital and liquidity buffers (through requirement or guidance, depending on the observability/probability parameters) to adjustments of the business model, to make it less exposed to SBRs. In another scenario, the drawn-out materialization of the risks is deemed to lead not so much to capital losses, but to a gradual erosion of franchise value and operating margins. In this case, higher capital may not be the appropriate answer and may even worsen the situation by creating more margin loss. Since the impacts differ by type of SBRD, the situation must thus be assessed on a case-by-case basis. The adjustment in the SREP process proposed in section 4 is designed to facilitate this by means of a structured dialogue between line supervisors and the bank.

More in detail, SBRDs endogenous to the ***financial system*** can have large system-wide impact on both current balance sheets and future income flows (e.g., the drivers of credit crunches and asset price busts following booms will affect banks in both ways). Others, like those SBRDs that affect the structures and forms of financial services provision (e.g., movements of activities to less regulated segments), will affect future income and franchise values (e.g., if institutions do not make sufficient adjustments). But again, effects can also include balance sheet impairments (e.g., increasing interlinkages and interconnections can raise the risks of insolvency spillovers).

Other SBRDs, notably those under ***economic-financial*** stemming from changes in industrial competitiveness, increased geo-economic and political fragmentation, or a diminished global financial safety net, can affect both current and future balance sheets and income. Geoeconomic and fragmentation could affect system-wide balance sheets in discrete ways (e.g., a financial meltdown due to massive cyber-attacks related to state activity; or a sudden revoke of liquidity (swap) lines by a foreign central bank). But some SBRDs in this category could affect income and franchise value gradually (e.g., when geo-fragmentation reduces business opportunities for banks by cutting off some jurisdictions).

Franchise value effects tend to dominate for many ***non-economic*** SBRDs where banks may over time see their traditional businesses (involving both their asset and liability sides) diminish and associated profitability decline (e.g., developments in technology and digitalization can lead to loss of specific industries' competitiveness, or climate can induce structural changes in production). However, some non-economic SBRDs, including those with adverse impacts on franchise values, can have large

discrete impacts on banks' balance sheets (e.g., as in case of the Ukraine conflict and the related sanctions on Russia; or nature-related events).

For **SBRDs originating from spillovers**, some, like aspects of worsening public finance and a more challenging monetary policy environment, may primarily affect future banks' income (e.g., risks of lower net interest margin because of financial repression). Some though can also affect balance sheets directly (e.g., increased bank-sovereign links leading to sudden adverse doom-loops).

4. DETECTING AND RESPONDING TO SBRDs

As argued in section 3, recent geopolitical, financial, and technological developments make SBRDs increasingly important drivers of the risks facing European banks. At the same time, the review in section 2 suggests that existing SSM processes do not take SBRs sufficiently into account. In this section, we suggest adaptations of the current processes to correct this gap.

SREP, the key process which leads to the setting of micro supervisory requirements, starts from an "internal" analysis of the conditions of the bank and its vulnerabilities in each of the four SREP "chapters" (business model; internal governance; risks to capital; risks to liquidity and funding), using both bank financial analyses and supervisory stress tests. On these bases, SREP assesses the bank's likely future performance across multiple dimensions: profit-loss, balance sheet strength, franchise and competitiveness, client base, risks in the banking and trading books, etc. At SREP's conclusion, prudential requirements (P2R and P2G) are then set for the specific bank. In essence, the heuristic process *starts* and *concludes within the bank*, with only limited and not systematic references to *exogenous conditions affecting the bank in a sustained way*. This means that SBRs, which are mostly part of those exogenous conditions, remain largely outside the current SREP framework and processes.

It could be argued that, since risk drivers affect the banking system – indeed, the financial system – as a whole, analysis and responses to SBRDs belong to the macroprudential domain, not the microprudential one. This would be a wrong conclusion. While the underlying *drivers* (as distinct from their *risk impacts*) are not specific to individual banks, SBRs likely affect individual banks differently depending on specific conditions and circumstances. To understand these differences requires in-depth analyses of individual banks, a task which is performed by the SSM as part of its SREP. At the same time, SBRs may entail endogenous systemic risks driven by the interactions among banks or with the economy, also calling for macroprudential policy responses. These interactions and coordination, and related institutional setups between microprudential and macroprudential policy become thus important when addressing SBRs.

4.1. Institutional and organizational arrangements

The SSM Regulation (SSMR, of 2013) entrusted the ECB with both microprudential and macroprudential responsibilities. It did not specify how responsibilities and activities are to be organised internally, except prescribing that the units conducting banking supervision should be separated from those responsible for monetary policy (to avoid any confusion of roles and conflicts of interest). Early on after the launch of the SSM, formal limits to exchanges and interactions were put in place to keep the different functions separate. As part of this separation, it was decided that the internal divisions conducting macroprudential analyses would be placed in the ECB's monetary policy "wing". The ECB's macroprudential analyses and decisions are consequently deliberately largely disjoint from SSM's activities.

In terms of specific arrangements for macroprudential policies, the ECB hosts and chairs the European Systemic Risk Board (ESRB), an EU-wide committee of European and national regulatory bodies which is "... responsible for the macroprudential oversight of the EU financial system and the prevention and mitigation of systemic risk". The ESRB remit covers "... banks, insurers, asset managers, shadow banks, financial market infrastructures and other financial institutions and markets". In pursuing its mandate, the ESRB "... monitors and assesses systemic risks and, where appropriate, issues warnings and recommendations" (all quotes from ESRB, 2026). In summary, the ESRB's mandate, besides being EU-wide (not only euro area or banking union), is inherently macroprudential, and for the whole financial sector, not only banks. At the same time, it is limited to issuing warnings and non-binding

recommendations to other authorities and does not have formal decision-making powers. The SSM participates in the ESRB without voting power.

In addition to the ESRB, the ECB hosts and chairs a "macroprudential forum" comprised of the national central banks of countries adhering to SSM supervision (euro area countries plus countries that are about to join the monetary union or have opted into the SSM voluntarily). Its principal scope is to informally coordinate macroprudential policies within the Eurosystem, a need dictated by the fact that the power to activate macroprudential instruments is shared between the ECB and the countries' authorities.

The ECB publishes biannually its Financial Stability Review (FSR), drafted by its macroprudential divisions and traditionally presented by the ECB Vice President in a press conference. The FSR contains highly sophisticated analyses of various systemic risks potentially affecting the EU, covering the banking and financial sectors in their entirety but with a fair degree of disaggregate information (mainly using country level data and distributional measures). It includes a specific chapter on banks and concludes with some macro-prudential recommendations. The FSR chapters on banks do mention risk drivers and contain diagnoses of some long-term risks, including some SBRs discussed in section 3, but without specific reference to policies to potentially address them. Separately, the SSM issues its SREP report after the SREP concludes, simultaneously with the second FSR of each year in November.

It could be presumed, due to its greater attention to macroeconomic phenomena and developments, that the FSR should pay greater attention to SBRDs than the SREP process and results. In practice, this does not appear to be the case: FSR analyses largely match those of the SREP report.

To test this in a simplified and objective way, we asked Anthropic's Claude to compile summaries of the chapter related to banking sector of the FSR and the SREP report, both published in November 2025 (ECB, 2025, and Buch, 2025b). Box 2 contains highlights. It confirms our impression that, apart from the first being more analytical and the second more technical and supervisory-oriented, the two documents largely coincide in their high-level identification and diagnoses of risks[11].

Box 2: AI summaries of the November 2025 FSR and SREP[12]

- Original sources: ECB (2025) and Buch (2025b)
- AI software: Anthropic CLAUDE, version Opus 4.8
- Setting: Max effort
- Command for FSR: Summarize Pages 51-71 of the FSR in a well-organized PDF
- Command for SREP: Summarize the SREP in a well-organized PDF

[11] We also did a more structured comparison explicitly identifying both similarities and differences between the two source texts. The results are interesting, though very similar in substance to simpler exercise. What emerges is a large overlap in their assessment of current vulnerabilities and future risks, but also complementary roles See Annex.

[12] The AI responses were streamlined for brevity. Full responses available on request.



ECB FINANCIAL STABILITY REVIEW · NOVEMBER 2025

Chapter 3 — The Euro Area Banking Sector

Summary of pages 50–70: profitability, funding, asset quality, capital and macroprudential policy

Euro area banks remain profitable, well-funded and well-capitalised, with asset quality near historical lows. But profitability gains are increasingly driven by non-core revenue, funding is shifting towards market-based sources, and pockets of credit weakness are emerging in SME and consumer lending amid elevated geopolitical and trade uncertainty.

3.1 Profitability: stable, but core revenue growth has stalled
3.2 Funding: favourable conditions, but a growing reliance on markets
3.3 Asset quality: sound overall, with isolated softening
3.4 Liquidity and capital: buffers remain ample
3.5 Macroprudential policy: preserve resilience, simplify without weakening

ECB BANKING SUPERVISION · PRESS CONFERENCE · 18 NOVEMBER 2025

2025 SREP Results & Supervisory Priorities 2026–28

The euro area banking sector is well-capitalised, liquid and profitable, but operates amid heightened geopolitical and trade risk. The ECB is simplifying and sharpening its supervision rather than weakening it, since well-capitalised banks are better able to serve the economy. Priorities for the next three years centre on resilience to geopolitical and macro-financial shocks and on operational and ICT resilience.

Resilience and profitability of supervised banks

Capital and liquidity: CET1 at 16.1%, leverage ratio just below 6% (5.9%). LCR 158% and NSFR 127%, with tight bond spreads—though growing reliance on market-based funding could pose stress risks.

Profitability: ROE around 10%, some 4.5 percentage points above the low-rate era, driven by higher net interest margins (now levelling off). Cost-to-income ratios fell from 66% (2020) to 54%. Wide dispersion across banks and countries persists.

Asset quality: sound in aggregate, but commercial real estate (4.6%) and SME (4.9%) NPL ratios run above average, and Stage 2 loans have trended up. NPL trends diverge across countries.

Profitability faces downside risks from weaker growth, higher provisioning, margin pressure and tariffs affecting corporates.

SREP assessment and 2025 stress test

The average overall SREP score edged up towards 2-; the distribution shifted to the centre, but about **one-quarter** of banks remain in weaker categories (scores 3–4). Qualitative measures were issued to 100 banks, with new measures down roughly 30%.

Credit risk drives most risk-weighted assets and about 40% of supervisory measures; internal governance (17%), capital adequacy (11%) and operational/cyber risk (10%) also feature.

2026 overall capital requirements and guidance stay broadly stable at **11.2% of CET1** (from 11.3%). The average Pillar 2 requirement rises slightly to 1.2%; capital headroom is healthy across the system.

Pillar 2 guidance falls to 1.1% for 2026 (from 1.3%). In the EU-wide stress test adverse scenario (geopolitical and trade tensions), losses rise 14% to **€628 billion** and NPLs reach 5.8%, but stronger profits leave capital depletion about 100 bps below the 2023 test.

CRR3 (Basel III) has applied since January; its 2025 capital impact was close to zero, with the output floor limiting internal-model benefits.

A key element when designing a framework for SBRDs is the period over which underlying risks must be assessed. In this respect, it appears that SREP and FSR focus on similar short-term drivers and risks, with little attention to SBRDs. The commonality may reflect, in part, similarity in the length of time for the tools used. As mentioned, supervisory stress tests generally cover a maximum of three years, as do bank business plans. FSRs' horizon appears to match that of SSM analyses. Yet, the time horizon of the manifestations of SBRDs, while variable and highly uncertain, likely extends well beyond three years. All in all, the similarity of the two documents is encouraging because it signals consistency; on the other; useful complementarities may be lost.

4.2. Augmenting SREP: the STIR exercise

To integrate slow-burning risks into the SSM supervisory process, we suggest augmenting the four existing chapters of SREP with a fifth one: a structured analysis of **S**ustained **T**hreats to bank stability,

their **I**mpacts on the bank and the possible **R**emedies; in short **STIR**. STIR would contribute to determining the content of SREP communications, including specifically the supervisory requirements and recommendations in the annual letters to banks. Note that there is scope for the ECB adding a fifth chapter, if needed helped by consultation with EBA, as the number and forms of SREP chapters are largely driven by secondary regulation (EBA) and by the SSM itself, not enshrined in law. STIR could apply scoring arrangements like for the other SREP chapters, or alternatively, perhaps initially, be introduced on an experimental basis without explicit scoring.

To properly design any supervisory requirements, the supervisor must be aware of the actions the bank has already put in place or included in its business plan to address SBRs. For this reason, **STIR** would call on the JSTs to engage in a dialogue with the bank on its specific possible SBRs. Concretely, the JSTs should have the bank provide systematic answers to the following three questions:

1. Which exogenous drivers (possibly drawn from a pre-arranged list) do you consider relevant as ***sustained threats*** to your bank, and why?
2. What do you expect the ***impact*** of those drivers to be on your bank (through what channels)?
3. What ***remedies***, if any, do you already plan to control for those risks or mitigate their impacts?

The answers provided by the bank would start a dialogue between the supervisors and the bank, aimed at collecting essential information and opinion from the field and "buying in" the bank into the new process. But would clearly not be the end of the story. The material collected from the dialogue would be vetted by the line supervisors, compared with information from other banks, eventually resulting in the identification of the proper response, its intensity and timing, and the split between micro vs macroprudential and other actions.

Relevant information coming from the augmented SREP would be exchanged with the ECB's macroprudential units. Similarly, macroprudential information obtained by the ECB units in preparing the FSR should timely be passed on to the SSM units working on SREP. All relevant information should be available for policy decisions on both sides, and be shared publicly as much as possible.

Threat Driver Categories. Regarding question 1, the identification of relevant sustained threats should be flexible and adaptable to external conditions and the bank's specific business model. To ensure the supervisory dialogue is clear and orderly, it is nonetheless recommended that the STIR dialogue be based on a preset list of SBRDs, rather than being completely open-ended. That said, the bank (perhaps before the SREP dialogue starts) can suggest additional items not included in the pre-set list.

A light process to identify such list could be structured as follows. As part of the preparation for each year's SREP, a tentative list of relevant SBRDs would be identified by SSM staff in cooperation with other ECB business areas. Each SBRD would be examined by ascertaining its parameters, suggested in section 3: **T**ime horizon, **O**bservability/Quantifiability, **P**robability, and **S**everity of potential impact – in short, **TOPS.** The ECB Supervisory Board would endorse their proposal for prioritised SBRDs (say, a maximum of four), after which the results of the TOPS process would be used is the upcoming SREP. The procedure would be reviewed yearly to ensure continuing relevance.

Table 1a extends the listing of SBRDs already noted in Section 3, adding further detail, while maintaining the classification in four categories: those originating within the financial system; those affecting the economic and financial system but originating outside the financial system; those non-economic and non-financial factors; and those resulting from policy spillovers.

Table 1a: Classes of Sustained Threats (SBRDs) and Examples

Category	Examples
1. WITHIN FINANCIAL SYSTEM	• Financial technology, digitalisation, crypto, cyber (non-state driven) • Shifts in financial services (e.g. NBFI) • Other disruptions (e.g. market malfunctioning)

2. ECONOMIC/FINANCIAL (EXOGENOUS TO THE FINANCIAL SYSTEM)	• Geoeconomic disruptions
	  ○ Trade disruptions
	  ○ Inefficient value chains
	  ○ Economic statecraft
	• Adverse competitiveness changes
	  ○ Loss of major (export) markets
	  ○ Low corporate sector productivity
	• Financial (exogenous to the financial system
	  ○ Sanctions on some states, agents
	  ○ Changes to the global financial safety net (including lack of central bank cooperation)

3. NON-ECONOMIC, EXOGENOUS TO THE ECONOMY/FINANCIAL SYSTEM	• Climate-related events • Adverse demographics • Health crises • Political crises, populism • Conflicts, including state-sponsored cyber attacks
4. SPILLOVERS FROM OTHER POLICIES	• Climate and energy transition policy • Monetary policy (sustained low or high interest rates) • Fiscal policy (fiscal dominance, financial repression, bank-sovereign loops)

Source: authors.

Impacts. Regarding question 2, discussions should concentrate on the possible long-term (i.e., slow burning) impact of relevant drivers, discounting those with shorter-term impacts already factored in through the vetting of bank business plans and other microprudential reviews as part of the current SREP or covered in stress tests. Sub-chapters for impact analysis are summarized in Table 1b. Again, these categories are tentative and may need fine-tuning. The first category of impacts refers to those directly affecting the bank's profit-loss statement and balance sheet. These can include future income losses or loss of client base, leading to a weaker franchise value. Balance sheet impacts can be through client bankruptcies, loan impairments, or asset market losses. Resilience, the ability to absorb and recover from shocks, is the second category. The ability to recover quickly from cyber-attacks or a flood leading to operational disruption is one example. Other potential impacts can result from loss of investor confidence, generating stock market losses and increasing the difficulty in raising capital.

Table 1b: SBRs: Types and Examples

Type	Examples
1. INCOME AND BALANCE SHEET LOSSES	• Margins/income loss • Loss of franchise value • Client bankruptcy/non-performance, asset impairment/losses, asset price declines
2. RESILIENCE (FINANCIAL AND FUNCTIONAL)	• Operational disruption • Loss of physical capital • Loss of confidence, investor flight • Impairment/erosion of human capital

Source: Authors

Remedies. Regarding question 3, Table 1c provides a categorisation of possible ***remedies***, including those strategies that the bank may already have in place or planned to fend off the impacts generated by the sustained threats or to mitigate potential impacts. Such remedies may be in the form of board or staff preparedness – like staff awareness exercises, or enhanced board or risk management practices. They can also consist of "brick and mortar" security and resilience precautions, like added protections or duplications of physical capital, more efficient IT backups, or other security procedures, and so on. Finally, they can consist of changes in internal procedures (e.g., greater/easier recourse to remote work), limits on types or extent of certain activities, or mainstream prudential instruments, like higher capital or liquidity buffers planned by the bank independently of supervisory requirements. Importantly, all these remedies are distinct from any supervisory actions that may be taken through the SREP. Supervisory actions are accordingly called for if bank remedies are lacking or fall short of desired results.

Table 1c: Remedies for SBRs

Area	Examples
1. BOARD/STAFF PREPAREDNESS	• Internal governance and risk management practices • Staff awareness
2. SECURITY AND RESILIENCE	• Physical capital security/backups • Cyber/it (more security/backups, faster recovery) • Human resilience
3. CHANGES, LIMITS, BUFFERS	• Changes in procedures • Limits on activities • Capital buffers • Liquidity buffers

Source: Authors

4.3. From analysis to policy instruments

This section puts forth ideas on how to translate the results of STIR into supervisory decisions.

The matrix in Table 2 in Annex summarises our proposed mapping approach. Columns marked A to D correspond to the four SBRDs: risk drivers originating within the financial system, elsewhere in the economic and financial sector, outside the economy, or from spillovers from other policies. The rows of

the first column of the table first divide the policy domain in three broad areas: microprudential, macroprudential, or both (when both policies are involved). The second column of the table further differentiates the three policy areas into nine rows of specific risk categories, corresponding to specific SBRs. Finally, the third column of the table spells out the specific tool or policy instrument to address that risk: for example, Pillar 2 Requirements, Guidance, limits on activity, or supervisory priorities. There is a correspondence here: each risk type must be addressed by a specific instrument, though each instrument can address more than one type of risk.

Each cell of the matrix represents a combination of one driver and one risk. The text in each cell describes an example and explains why the driver in question may lead to the specific risk. To facilitate reading, cell colours indicate our judgement on the strength and relevance of the correspondence driver for the specific risk manifestation, green meaning more relevant, yellow intermediate, and red not relevant or not applicable (each of the four SBRDs can drive almost all SBRs). The entries in the matrix are just examples: they do not provide an exhaustive list of all possible drivers and risk manifestations. Overall, the matrix provides tentative guidance on how specific SBRs stemming from a SBRD are allocated to specific supervisory chapter and instruments best suited to address it.

To illustrate, let us consider some specific cases. Take for example entry (3, A), corresponding to the row *operational risk* and the column SBRDs that are *endogenous to the financial system*. This can be a situation where, in the context of greater financial system digitalisation, the prospective development of new AI techniques makes hacking the bank's IT system easier, increasing operational risk. There are several possible responses. The first and most direct would be to strengthen internal controls, introducing new anti-hacking devices (e.g., more antivirus, better identity controls, firewalls). These responses, however, may take time to develop and adopt, and may in any case not suffice. If deemed not to provide sufficient protection or not fast enough, higher traditional prudential buffers (liquidity, capital) may be required as a second-best or complementary solution.[13]

Consider next cell (2, C) corresponding to the combination of *credit risk* and SBDRs *originating outside of the economy*. For example, this could be an outbreak of a war or a climate crisis. Depending on the specific SBR, the supervisory dialogue would identify those exposure classes more vulnerable to that particular risk. If significant, the STIR process should also uncover whether a management buffer has already been put in place or foreseen to cover that specific risk. If not, buffers would need to be strengthened against that type of risk through a capital requirement and guidance. The exact choice between P2R or P2G capital would be a supervisory decision, depending on the probability and the period over which the risk may occur, the strength of its impact, and the bank's receptivity. When the risk is less likely, less impactful or its manifestation more distant in time, more flexible instruments, such as guidance or supervisory expectations, would be appropriate. Stricter requirements would be best suited when the SBR is more clearly observable and measurable, nearer in time, and more likely to occur.

Take now (4, D), corresponding to a *policy spillover: interest rate risk in the banking book*. This could result from hazardous fiscal policy, resulting in fiscal dominance and high and variable risk premia, or from monetary policy leading to inflation with similar consequences for risk premia and the yield curve. Such developments are likely to increase interest risks and result in more volatile intermediation

[13] DORA, a EU regulation in force since 2025, indicates lines of action financial institutions are to follow in order to foster digital operational resilience (Regulation of the European Parliament and the Council of 14 December 2022 on digital operational resilience for the financial sector, available here: https://eur-lex.europa.eu/eli/reg/2022/2554/oj. Pursuant to this regulation, ECB supervision is responsible for verifying that those lines are followed by banks the ECB supervises directly (significant banks). The focus of our proposals here is different, however: it is on prudential measures the ECB may wish to apply to address slow-burning risk drivers, including due to digitalization and not covered by DORA's measures.

margins. If the bank has not built-up extra margins already, the supervisor should consider imposing a higher P2R or P2G, depending on the probability and time profile of the risk.

An interesting case is cell (8, A), referring to *financial system interconnection* (which increases systemic risk, hence requiring macroprudential measures) and to SBRDs *developing within the financial system*. This situation could arise from prospective new forms of private credit or risky non-bank intermediation, generating systemic risk given interconnections between banks and NBFIs. This case is well known (the cell is coloured green) and the response to would need to be primarily macroprudential. Network analyses could be used to reveal the critical nodes of financial interconnection. Once the extent and the origins of the risks are estimated, the supervisor can intervene by applying limits to certain activities or exposures or imposing restrictions to liquidity and/or funding, for example by means of tighter LCR or NSFR.

Other cases are less straightforward, in part as impacts are sometimes difficult to assess. Consider cells (6, B) and (6, C). They correspond by row to *franchise* and *reputational value* respectively, and by column to *economic disruptions* developing *inside* or *outside the economic sectors* respectively (for example, trade disruptions or upheavals from strategic insecurity, or major adverse changes in competitiveness patterns due to demographics). These SBRs could adversely impact the franchise value of banks, possibly compromising the solidity and reputation of certain ones. As this eventuality is hard to assess ex-ante, the cells are yellow coloured.

While a matrix of this type is a useful instrument to help make the prudential response more orderly and systematic, its content is subject to considerable judgment (and the current text is not more than a draft). Once adopted in some form, it should also evolve as experience is gained and reflect changes in financial, economic and political/strategic conditions globally. Our proposal in Table 2 is best seen as our reflection at this stage but remains tentative and intended mainly to stimulate further reflection and discussion.

5. CONCLUSIONS

Thirty-five years ago, the economists Alberto Alesina and Allan Drazen (1991) in a seminal paper titled "Why Are Stabilization Delayed?" asked the question of why the adoption of public policies to address known but slowly-building risks to economic stability often get delayed relative to the optimal time of enacting them. Their answer was that timely action often fails to gather political consensus. A similar argument was made in 2015 by Mark Carney, then Governor of the Bank of England, on why climate risk tends to be ignored (Carney, 2015).

In this paper, we consider "slow burning" risk drivers (SBRDs) threatening banking stability. SBRDs are factors that lead to risks building up gradually over time, whose adverse influence goes beyond the standard banking and supervisory timelines ("slow-burning" bank risks, or SBRs). Similarly, under current arrangements, the appropriate supervisory response may be delayed.

Relative to those authors, our ambition is limited. We do not formally model the policymakers' incentives. We limit ourselves to suggesting amendments to existing ECB supervisory arrangements to make timely responses easier and more likely since, even when incentives bias policy towards inaction and delay, by fostering discipline and transparency well-designed processes can mitigate those biases.

Our argument proceeded as follows.

In section 2, we reviewed current ECB micro and macroprudential processes, concluding that their structure at inception provided less space for taking SBRDs systematically into account. But we argue that the case for addressing slow-burning risk drivers has become more urgent in recent years.

In Section 3, we discuss SBRs in some detail, providing a definition, a classification, and examples. We also discuss key characteristics they must have to make them suitable for prudential policy treatment, such as observability, quantification, probability of occurrence, and time horizon.

Section 4 describes our policy recommendations. We suggest a new supervisory chapter, **STIR**, to be added to the annual SREP exercise. STIR would involve supervisory staff engaging bank management in a structured dialogue on how it assesses SBRs affecting the bank and how impactful threats are. It would conclude with what remedial actions should be undertaken, involving microprudential and macroprudential policies, illustrated using a matrix that details and explains the relations between threats and responses.

Transforming our ideas into concrete policy arrangements and decisions will neither be easy nor rapid. We are aware that, partly for reasons echoing those theorized by Alesina and Drazen and used by Carney, the adoption of front-loaded responses to far out and highly uncertain hazards can be controversial. We thus largely see our paper to raise awareness and start a discussion.

We are also aware that the European banking community (regulators and banks alike) is now intensely discussing the overall regulatory burden on European banks, with views split on whether such burden allows them to compete successfully in global markets. Our advocacy of a prudential treatment of SBRs does not necessarily imply a higher burden. We see the two questions as separate. A more long-term risk sensitive prudential framework may be enacted without increasing the burden on banks if simplification, streamlining and proportionality are enhanced throughout the supervisory spectrum.

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ANNEX 1: AI structured analyses of the November 2025 FSR and SREP

Prompt: compare: the chapter related to banking sector of the ECB (2025), "Financial Stability Review, published November 2025, available [here](https://www.ecb.europa.eu/press/financial-stability-publications/fsr/html/ecb.fsr202511~263b5810d4.en.html); and the SREP (2025) report published 28 November 2025; available [here](https://www.bankingsupervision.europa.eu/press/speeches/date/2025/html/ssm.sp251118~552e92eb92.en.html); and provide a summary of similarities and main differences

The comparison of two documents is presented below— the euro area banking sector chapter (Section 3) of the ECB's November 2025 *Financial Stability Review* (FSR) and Claudia Buch's introductory statement presenting the 2025 SREP results and 2026–28 supervisory priorities (dated 18 November 2025, not 28 November as in your message — I've used the actual publication date shown on the page).

What each document is

The FSR banking chapter is a **financial-stability** assessment: it looks at euro area banks as a system, asking whether risks to the banking sector could threaten broader financial stability, and situates banks within the macro-financial environment (tariffs, sovereign risk, non-bank linkages). The SREP statement is a **microprudential supervisory** assessment: it reports on the ECB's bank-by-bank Supervisory Review and Evaluation Process outcomes and sets out capital requirements and supervisory priorities for individual institutions. One is diagnostic/systemic, the other is regulatory/individual.

Similarities

Same underlying picture of resilience. Both documents converge on a consistent story: euro area banks are well-capitalised, liquid, and profitable, having weathered 2025's shocks (notably the April tariff turmoil) without major damage. Euro area banks maintained robust return on equity levels, averaging close to 10% in the first half of 2025, with banks' resilience bolstered by capital and liquidity ratios well above regulatory requirements, according to the FSR — closely matching the SREP statement's report that the average Common Equity Tier 1 ratio stood at 16.1%, up slightly from 15.8%, with the leverage ratio just below 6% and profitability having stabilised, with average return on equity around 10%.

Same core vulnerabilities flagged. Both single out credit risk from tariff-exposed corporates and SMEs/commercial real estate as the main asset-quality concern. The FSR notes continued deterioration in some sectors, notably SME and consumer lending, with asset quality that could worsen for corporate exposures should trade fragmentation increase, while the SREP statement similarly flags above-average NPL ratios for commercial real estate loans at 4.6% and SME loans at 4.9% and reports that credit risk remains the most important driver of risk-weighted assets, with about 40% of supervisory measures focused on it.

Same geopolitical/tariff framing. Both treat the April 2025 tariff shock as the year's defining stress event and both stress that its full impact hasn't yet materialised. The SREP statement notes market reactions to the April 2025 tariff announcements show how quickly geopolitical tensions can become concrete financial risks, and the full impact on the corporate sector and bank balance sheets will only become visible gradually — mirroring the FSR's language on lagging effects.

Overlapping structural themes. Both flag growing bank–non-bank interlinkages and funding reliance on market-based/non-bank sources as an emerging vulnerability, and both raise digitalisation, AI, and operational/cyber resilience as forward-looking risks.

Main differences

Scope and unit of analysis. The FSR is system-wide and macro-financial — it links bank conditions to sovereign debt, non-bank finance, equity valuations, and global capital flows. The SREP statement is bank-by-bank and regulatory — it reports the distribution of SREP scores, Pillar 2 requirements/guidance, and supervisory measures across roughly 105 significant institutions.

Purpose and audience. The FSR is a biannual early-warning publication aimed at policymakers and the public, designed to promote awareness of systemic risk. The SREP statement is a supervisory accountability exercise — a press conference readout of concrete regulatory decisions (capital add-ons, qualitative measures, enforcement priorities) that will bind individual banks in the following year.

Level of granular supervisory detail. Only the SREP statement contains bank-level regulatory mechanics: overall capital requirements and guidance for 2026 will remain broadly stable at 11.2% of CET1, compared with 11.3% this year, nine banks were subject to a Pillar 2 add-on for insufficiently provisioned non-performing exposures — down from 16 last year — and six banks had a leveraged finance add-on, down from nine, and a new, simplified Pillar 2 Requirement methodology is being phased in. None of this appears in the FSR, which doesn't discuss individual capital requirements.

Stress-testing detail differs. The SREP statement reports specific 2025 EU-wide stress test results feeding into Pillar 2 guidance: in the adverse scenario, aggregate losses would increase by 14% to €628 billion, with non-performing loans rising to 5.8%. The FSR references the same stress test only briefly, to support its general resilience narrative.

Forward-looking priorities differ in nature. The SREP statement sets out concrete supervisory priorities for 2026-28 — geopolitical/macro-financial resilience and operational/ICT resilience — plus internal reform initiatives (SREP reform, "Next Level Supervision," supervisory culture). The FSR's forward agenda is more macroprudential and policy-oriented: preserving releasable capital buffer requirements, with targeted increases where buffers are low, and completing the banking union, alongside a push for the savings and investments union.

Broader macro-financial risks are FSR-exclusive. The banking chapter of the FSR discusses risks largely absent from the SREP statement — sovereign bond market stress, spillovers from US fiscal/dollar dynamics, non-bank fund leverage and stablecoins, and rising bank funding from non-banks as a system-wide amplification channel. The SREP statement, being bank-specific, doesn't address sovereign or non-bank sector dynamics in comparable depth.

Tone on regulation. The SREP statement includes an explicit institutional message on simplification versus resilience trade-offs — discussions on how to simplify regulation and supervision without weakening resilience have gained traction, and weakening regulation or supervision would have negative implications for resilience, competitiveness, and lending ability — a defence of the supervisory framework that has no direct counterpart in the FSR's more analytically neutral banking chapter.

In short: **the FSR asks "could the banking sector become a source or amplifier of systemic risk?"** while **the SREP statement asks "how well is each supervised bank actually complying with capital and risk-management requirements?"** — complementary lenses on largely the same set of 2025 conditions (resilient capital/liquidity, elevated but still-latent tariff-related credit risk, growing digitalisation and non-bank interlinkage risks), but pitched at different levels of the system and serving different institutional purposes.

ANNEX 2

Table 2: Risk drivers

Policy area	Risk area (SBRs)	Analytical tool, policy instrument	RISK DRIVERS (SBRDs)			
			A. Within the financial system	B. Economic/financial	C. Non-economic	D. Spillover from other policies
MICRO PRU	1. Business model	Viability and sustainability checks (possibly P2R/P2G)	Disintermediation from NBFIs, private credit spillovers, asset price volatility, technological disruptions (e.g. from AI) and IT security failures impact on business model relying on IT	Sanctions and other factors leading to trade disruptions can jeopardize business models, e.g., when heavily exposed to geographically undiversified value chains	Climate change creates potentially catastrophic risks affecting a broad range of bank borrowers, both non-financial and financial (e.g. insurance)	Fiscal dominance, inflation or deflation may impact on business models depending on low and stable interest rates, such as mortgage lending
	2. Credit risk	P2R/P2G (capital)	Private credit, changes in payment systems and other financial innovations can generate credit risks to banks exposed to fintech and payment systems providers	Sectoral distribution of exposure determines the vulnerability to credit risk, e.g., vis-à-vis borrowers exposed to trade and security risk	Climate and other non-economic disruptions are a major cause of vulnerability to credit risk, depending on sectoral distribution of exposures	Sectors exposed to climate policy risk, such as automotive but also subsidized renewables, can be affected and banks exposed to them be at risk
	3. Op risk	Internal controls, P2R/P2G	Cyber-attacks, breaches of IT security, financial crime, terrorist attack or elsewhere, are major sources of operational risk when affecting critical nodes	SBRDs originating from adverse economic and financial developments (not within the financial system) should not be a primary source of op risk	Breaches of security, financial crime, terrorist attack and environmental factors can imply operational risk (e.g., flooding of data centres)	Policy spillover are not likely to generate relevant operational risks
	4. IRRBB	P2R/P2G	Financial system's endogenous risk should not be a primary risk source for the banking book, barring episodic or structural large movements in the yield structure	Competitiveness, productivity, trade dislocation affecting value chains can affect interest rate levels and spreads massively	Non-economic factors can affect interest rate risks in many indirect ways, with material knock-on effects on banking books	Fiscal or monetary policies that render future yield curves more uncertain or adverse can endanger certain business models and require extra capital

Policy area	Risk area (SBRs)	Analytical tool, policy instrument	RISK DRIVERS (SBRDs)			
			A. Within the financial system	B. Economic/financial	C. Non-economic	D. Spillover from other policies
	5. Market risk, compliance	Limits, P2R/P2G	Endogenous risks in the financial system present high risk for regulated institutions in the areas of market risk and compliance	Geo-economic disruptions can present significant market risks for regulated financial institutions	Climate, health and security crises present major risks for regulated financial institutions in all areas, including market risks	Spillovers from other policies can imply market risks for banks, though probably to a lesser extent than other slow-burning risks
	6. Franchise, reputational	Limits, communication, Pillar 3	Some activities that are too unknown or present too high a risk for regulated financial institutions should be discouraged or transparently communicated	Franchise and reputational effects are possible but are not a main channels of influence of economic and financial risk drivers	Franchise and reputational effects are possible but climate, health and strategic security SBRDs should not major factors	Franchise and reputational effects are possible but are not a main channels of policy spillovers risk drivers
MACRO PRU	7. Systemic influence, TBTF	Thematic stress tests, structural macroprudential	Some financial institutions and activities considered too risky either structurally or cyclically should be discouraged so that they not likely become a major source of systemic influence	Geo economic disruption can generate significant systemic risks also through the systemic influence of individual banks	Climate, health and security crises present major systemic risks that can transmit through the systemic influence of individual banks	Policy spillover are not likely to generate relevant systemic risks
	8. Interconnection, real-financial interaction	Network analysis, exposure limits, LCR and NSFR	SBRDs endogenous to the financial sector may induce interconnection and exacerbate systemic risks of financial institutions, including with NBFI	Geo economic factors are relevant in general and financial interconnection can be a source of transmission of them	Climate, health and strategic risks are relevant in general but financial interconnection is not likely to be a major source of transmission of them	Policy spillover are not likely to generate relevant systemic risks

Policy area	Risk area (SBRs)	Analytical tool, policy instrument	RISK DRIVERS (SBRDs)			
			A. Within the financial system	B. Economic/financial	C. Non-economic	D. Spillover from other policies
BOTH	9. Strategic policy directions	SSM priorities and expectations, ECB communication	Endogenous slow-burning risks in the financial sector may require changes in prudential strategies to be encouraged through communication instruments	Economic and financial SBRDs may require changes in prudential strategies to be addressed through communication instruments	Non-economic slow-burning risks may require changes in prudential strategies to be addressed through communication instruments	Slow-burning risk drivers from policy spillovers are unlikely to require changes in prudential policy to be addressed through communication instruments

We discuss the relevance of "slow-burning risk drivers" (SBRDs) and their possible treatment by ECB supervision. SBRDs are promoters or facilitators of bank risk which build up gradually over time and exert influence beyond standard supervisory timelines. We argue that SBRDs have increased in importance, that frontloaded prudential action has value and hence that they need to be brought more explicitly into the ECB's supervisory approach. We suggest ways to do so using the existing micro- and macroprudential toolkits.

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