

# Joint Committee Update on Risks and Vulnerabilities in the EU Financial System – Spring 2026

Joint Committee of the ESAs  
JC 2026 06, 27 March 2026

# Background and content

## Joint Committee ESAs Update on Risks and Vulnerabilities

The Joint Committee is a forum with the objective of strengthening cooperation between the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA), collectively known as the three European Supervisory Authorities (ESAs), and the European Systemic Risk Board (ESRB). Under the Joint Committee, the ESAs prepare a cross-sectoral risk assessment to the Economic and Financial Committee- Financial Stability Table (EFC-FST) which is summarised in this presentation.

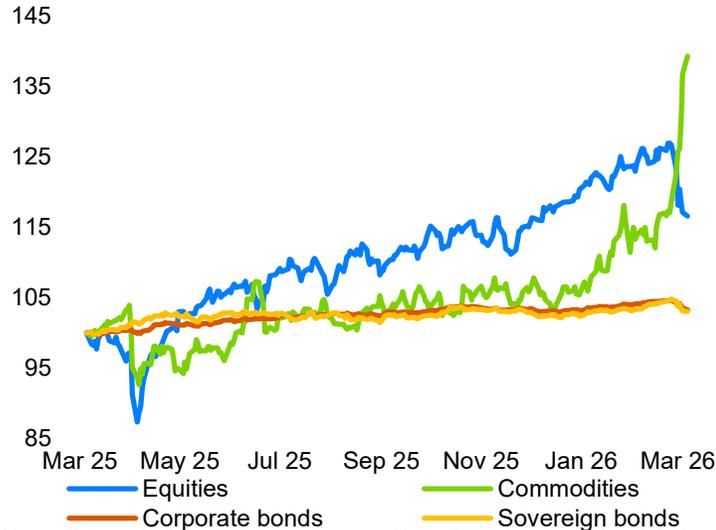
## Spring 2026 ESAs update on risks and vulnerabilities

- Summary presentation to EFC-FST
- Update on risks with focus on topical themes of current geopolitical risks and private finance
- Annex with outlook and risks and further details

# Executive Summary

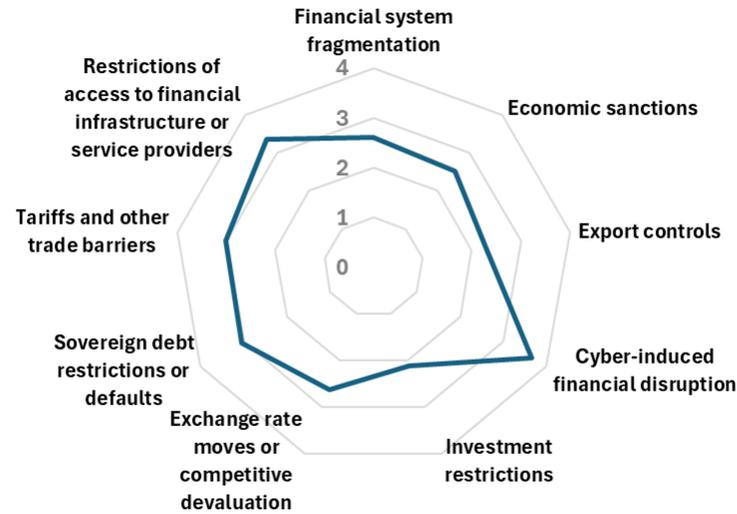
# Geopolitical developments keep uncertainty elevated for the ESA sectors

Iran war led to corrections, ending low volatility



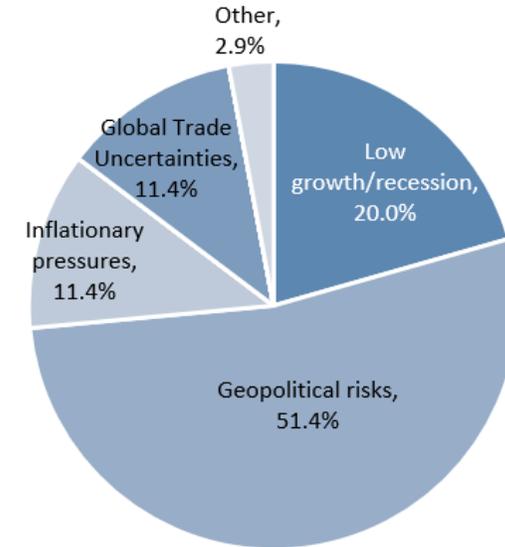
Note: Return indices on euro-area equities (Datastream regional index), global commodities (S&P GCSI) converted into EUR, euro-area sovereign and corporates bonds (iBOXX, EUR), 07/03/2025 = 100.  
Sources: Datastream, ESMA.

Relevant geoeconomic factors for EU banks



Note: Relevance of potential geoeconomic factors for EU/EEA banks (1 – low, 5 – high)  
Source: EBA risk assessment questionnaire and EBA calculations

Geopolitics main macro risk driver for insurers

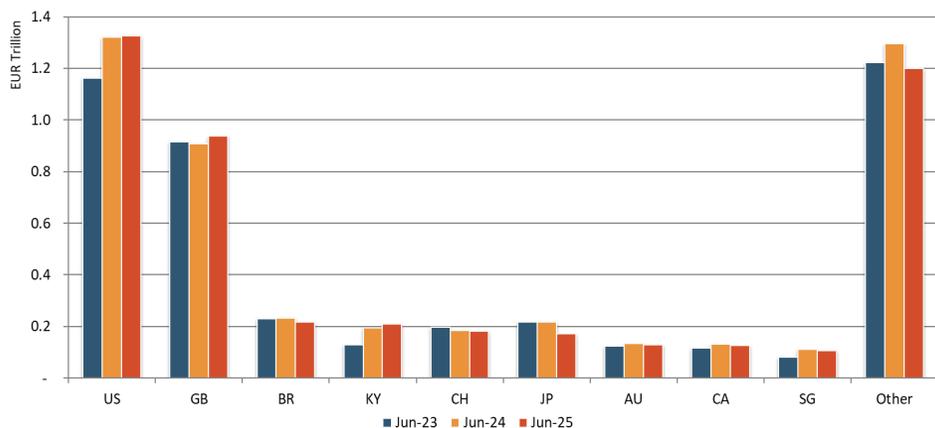


Note: Proportions of macro risk drivers cited as the main driver for EEA insurers based on NCAs Bottom-Up Surveys Autumn 2025  
Source: EIOPA (2025), December Financial Stability report

- Iran war → new uncertainties, energy price jumps, anticipated inflation and weaker economic outlook
- Continuing elevated valuations and spread compression → repricing and liquidity risk
- Higher rates and sovereign fragility → funding and asset-quality risk
- Geopolitical and cyber threats → shocks and infrastructure risk

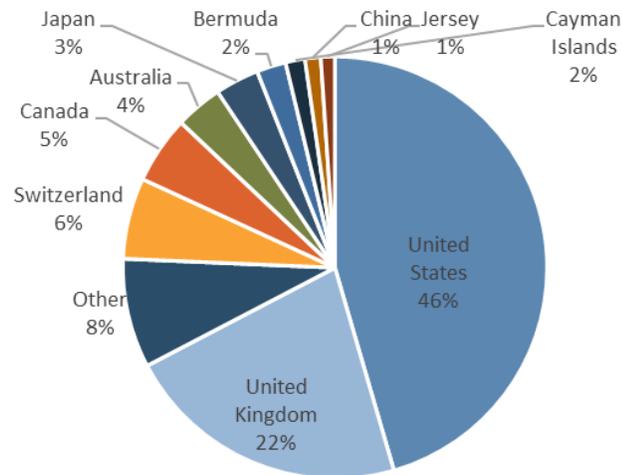
# Interconnectedness adds vulnerability, as does risk of regulatory divergence

EU/EEA bank exposures to selected third countries, EUR trillion



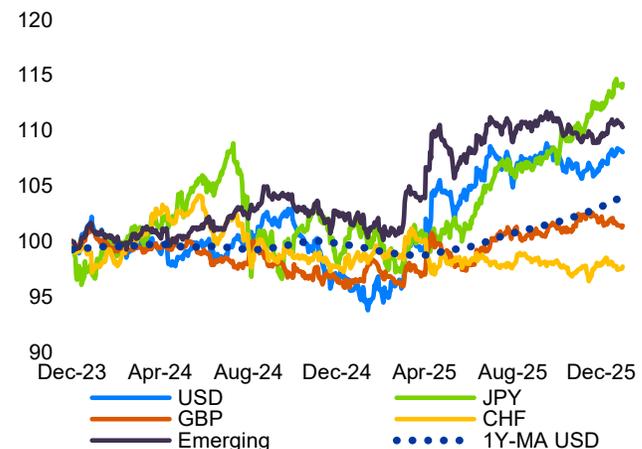
Source: EBA Supervisory reporting data

Insurers non-EEA investments, by country



Note: Non-EEA investment ca 1.2T, 13.1% total direct investment, no look-through applied.  
Source: EIOPA (2025), December Financial Stability report

Currency shifts could drive risks

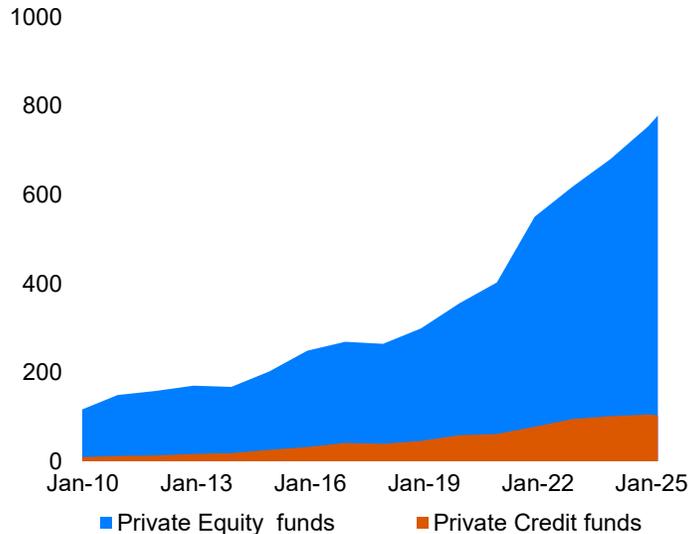


Note: Spot exchange rates to EUR. Emerging is an average of spot exchange rates for CNY, BRL, RUB, INR, MXN, IDR and TRY weighted by GDP as of start date year. 01/04/2023=100. Increases in value represent an appreciation of EUR. 1Y-MA USD=one-year moving average of the USD exchange rate.  
Sources: ECB, IMF, ESMA.

- Fund leverage, US equity exposure and liquidity mismatches → market stress risk
- Cross-border and counterparty links → fast transmission of foreign shocks to EU financial institutions
- Non-EEA investments and businesses links → external shock and claims volatility risk

# Private finance: growth and prospective shift in risk profile

## EU private equity & private credit fund growth



Note: Assets under management by private equity and private debt funds with fund manager in the EU in EUR bn.

Sources: Preqin, ESMA.

- EU private equity and private credit funds have grown rapidly, though still smaller than US
- Private equity and private credit are highly interconnected
- Banks have significant links to private finance through both their asset and liability structures.
- Insurers and pension funds hold overall limited exposures to private credit. In the future, insurers' investment strategies could shift more broadly as firms adjust to the revised framework.
- In February and March, surge in redemptions at flagship US semi-liquid BDC private credit funds, linked to AI effects on software business and credit quality

## Benefits and risks

- SIU will include provisions to increase private equity investment
- Private finance is illiquid, complex, less transparent, also creates new risk dynamics, incl. data gaps
- Growth may be at expense of public markets
- Private credit remains untested through a full business cycle, but recent redemption surges in the US reveal vulnerabilities under stress

# Policy recommendations for authorities and financial institutions

**Get ready to respond to geopolitical challenges**

Prepare and plan thoroughly for risks using appropriate tools

Cautious management of sovereign exposures

Financial institutions should consider geopolitical risks in their risk management

Investor due diligence given lack of transparency

Bank understanding and monitoring of NBFIs and private finance exposures

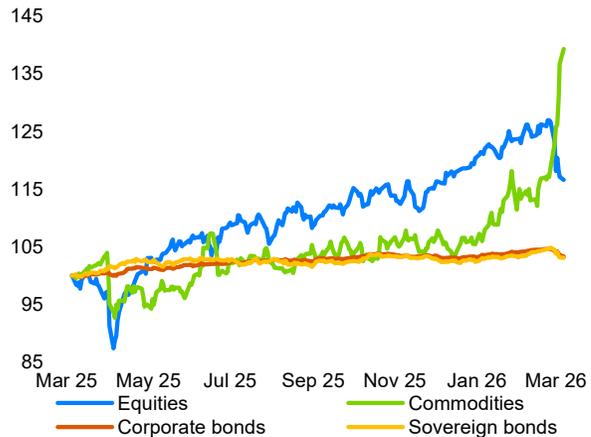
Insurer supervisors should monitor shift in risk taking in view of SII 2027

**Monitor and manage risks associated with NBFIs and private markets and prospective shift in risk profiles**

# JC Update on Risks and Vulnerabilities

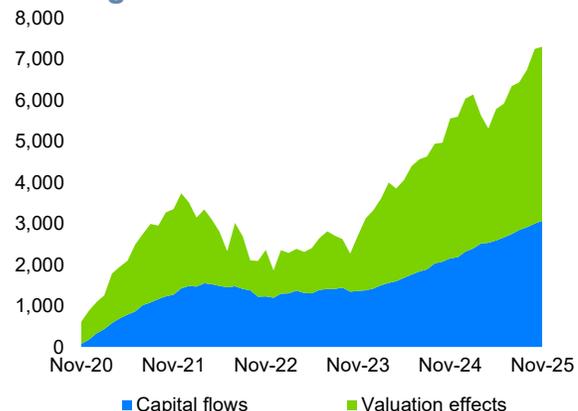
# Key trends in market developments and funds

## Low volatility asset growth until Iran war



Note: Return indices on euro-area equities (Datastream regional index), global commodities (S&P GCSI) converted into EUR, euro-area sovereign and corporates bonds (iBOXX, EUR), 07/03/2025 =100.  
Sources: Datastream, ESMA.

## Fund growth linked to valuation



Note: Net valuation effect related to the AuM of EA investment funds, computed as the intraperiod change in AuM, net of flows received in the respective period. Capital flows and valuation effects in EUR bn. AuM expressed in EUR tn.  
Sources: ECB, ESMA.

## Geopolitical events continue to shape financial market context

- **Prior to Iran war, European economic outlook was muted** with US tariffs coming into effect, ongoing divergence within EU with relative weakness in the largest member states.
- **Iran war added further uncertainty, energy price increases**, risks of inflation and weaker economic growth.
- **Other geopolitical events in 2026 also contributed to the uncertain environment** with Venezuela, Greenland, US Supreme Court tariff ruling, ongoing conflict in Ukraine and some EU government instabilities.

## EU equities reached record highs; bond yields rose as spreads tighten

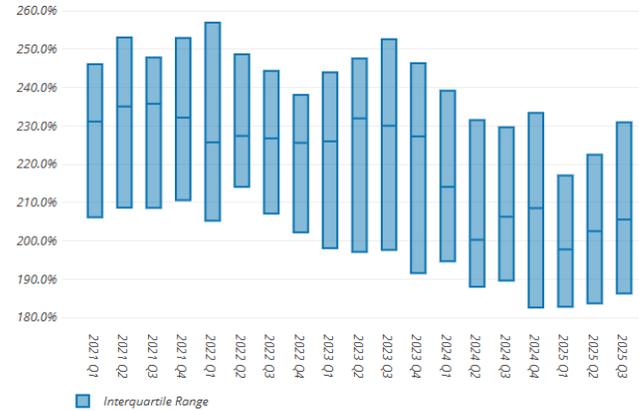
- **Equities:** Until the Iran war, equity prices continued their increase with low volatility, though with spikes linked to AI/tariff concerns. Bank share prices rose early in 2026, after strongly increasing last year, but are no longer outperforming the wider stock market. The Iran war led to equity price falls, including for banks.
- **Bonds:** sovereign yields rose with the Iran war on expected inflation. Before that, there was a slight increase in yields but with narrower spreads, less dispersion, even with high issuance and deterioration of liquidity in 4Q25. Corporates remain under strain, default rate fall slowed, yet market appetite for lending remains strong with tight spreads.
- **Commodities:** Energy prices rose sharply with the Iran war, ending previous downwards trend. Gold recently reached a new record high, though with significant volatility, on persistent safe-asset demand given geopolitical uncertainties.
- **Crypto:** values have dropped significantly since October 2025, while stablecoin have generally continued to grow, albeit at a slower pace. There are risks to traditional financial markets from further declines in crypto-asset prices, including also from possible runs on major stablecoins, should investor confidence in these assets collapse.
- **Credit quality:** Annual default rate (estimated using reported credit ratings data) for high-yield non-financials stopped falling and remains somewhat elevated by historical standards. Continuing high refinancing needs could still drive downgrades in vulnerable sectors.

## EU investment funds resilient in volatile environment

- **Euro-area fund sector growth** with two-thirds due to valuation effects; real estate funds flows negative at euro-area level, with differences across countries.
- **Risks to funds:** general market risks; amplification from leverage; continuing large exposures to US and tech; ongoing valuation and liquidity risk in the real estate fund sector.

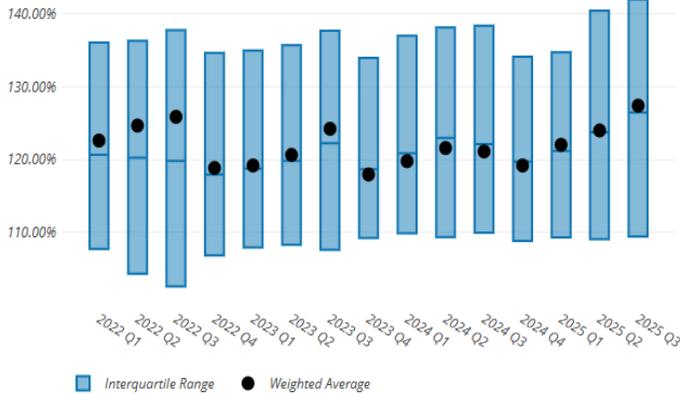
# Insurance and IORP sectors continue to demonstrate resilience, despite macroeconomic uncertainty

## Solvency Ratio - Groups



Source: EIOPA Risk Dashboard, Jan 2026

## Funding Ratios (DB schemes)



Source: EIOPA Risk Dashboard, Jan 2026

### Insurance and IORPs sectors remain broadly resilient with robust capital and funding positions

- Insurers' capital positions have strengthened slightly, supported by robust solvency ratios. Median SCR ratios slightly increased for life, non-life and composite insurers.
- Profitability indicators are robust thanks to high investment income and positive underwriting results.
- IORPs funding ratios improved. Reserve and funding risks are at a low level, decreasing from medium, driven by the strengthening of the financial position of Defined Benefit (DB) IORPs in the third quarter of 2025.
- IORPs improvement reflects the combined effect of strong investment returns, driven by higher equity prices, and the impact of rising long-term interest rates, which lowered the value of pension liabilities.

### Investment risk is gradually increasing despite stable asset allocation

- Aggregate private credit and alternative asset exposures have continued to grow, though they remain at a relatively low level and are much lower for insurers in Europe than in the US.
- Vulnerabilities from market volatility and global market interconnectedness may affect portfolios with overseas exposures.
- Reinsurance arrangements and exposures to non-EEA financial institutions increase the risk of contagion if stress emerges in global markets, especially in the US or emerging market.

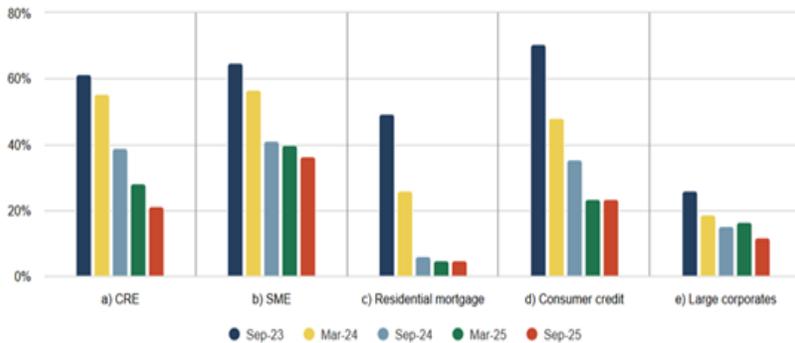
Looking ahead, the related adjustments introduced by the 2027 Solvency II Review and the current IORP II proposal could trigger reallocation of investments, which may influence insurers' and IORPs risk profiles

# Bank profitability remains high and capitalization sound in the context of increased geopolitical uncertainty

## Capital and leverage ratios of EU/EEA banks, Q2 2019 – Q2 2025



## EU/EEA banks' expectations on deterioration of asset quality by portfolio



Source: EBA supervisory reporting (top), EBA risk assessment questionnaire (bottom)

## EU/EEA banks' return on equity (RoE) remains near recent peaks (at 10.7% in Q3 2025)

- Profitability has not yet shown material signs of deterioration, supported by low impairments. Net interest margins (NIM) slightly fell YoY to 1.58% in Q3 2025. Loan rates for non-financial corporates (NFCs) decreased considerably by ca. 70bps. Deposit rates slightly decreased.
- Cost efficiency, via e.g. automation, digitalisation and outsourcing is important.
- Cost pressures from necessary investment into cybersecurity, digitalisation and from wage inflation continue.
- Potentially rising impairment needs may also affect profitability.

## Capital ratios remain at high levels driven by strong organic capital creation; solid liquidity ratios

- CET1 ratio further increased YoY and is on an all-time high of 16.3% in Q3 2025. Total capital ratio reached 20.4% in Q3 2025. Capital ratios remain well above requirements across all member states.
- Strong organic capital creation supports high capital ratios.
- Liquidity ratios remain well above regulatory requirements. Liquidity buffers have shifted toward sovereign assets, increasing sensitivity to market volatility.

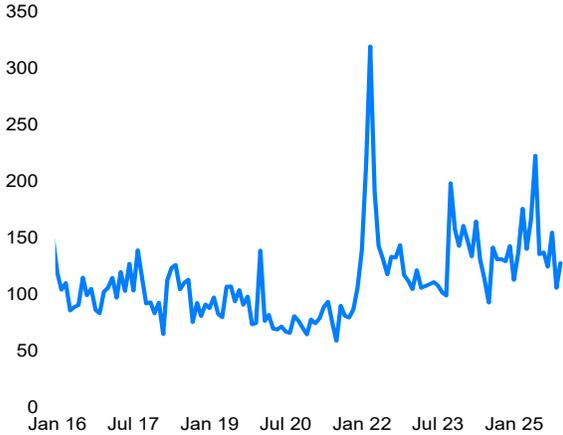
## Asset quality remains solid, yet pockets of risks should be monitored

- Asset quality remains stable compared to last year (NPL ratio at 1.8% in Q3 2025), supported by robust labour markets and improved collateral values, especially in real estate.
- Banks continue to report a high share of Stage 2 loans, particularly in commercial real estate (CRE) and small and medium-sized enterprises (SMEs), which has not yet translated into an increase of defaulted loans or higher provisioning levels.
- Banks' outlook on asset quality has improved across all major portfolios. Yet ca. 1/3 of banks expect some deterioration in SME loan portfolios.
- Sovereign exposures further increased to EUR 4tn in H1 2025 (+14% YoY) representing 226% of CET1 ratio. While domestic bias has slightly decreased it remains important (close to 50% of banks' exposures towards domestic sovereign).

Topical theme: Geopolitical risks

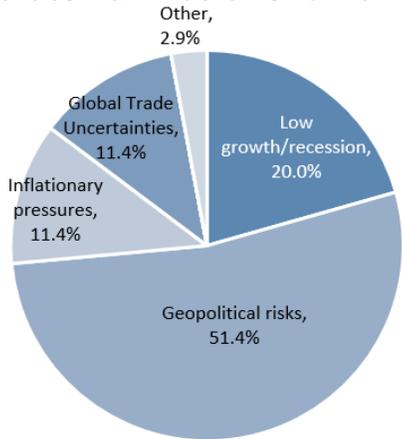
## Impact of geopolitical risks on financial sectors (1/2)

### Geopolitical Risk Index - volatile and elevated



Note: tracks geopolitical threats based on media reports.  
Source: Caldara, Dario, and Matteo Iacoviello (2021), "Measuring Geopolitical Risk," working paper, Board of Governors of the Federal Reserve Board, November 2021

### Geopolitics main macro risk driver for insurers



Note: Proportions of macro risk drivers cited as the main driver by EEA insurers

Source: EIOPA (2025), December Financial Stability report

### Ongoing geopolitical developments keeping uncertainty elevated...

- New developments in 2026 (Iran war, Venezuela, Greenland) and ongoing conflicts (Ukraine) are keeping uncertainty and risks of further sudden developments high.
- Sovereign debt sustainability deterioration in major economies (e.g. French budget disputes / debt-reduction, US 'Big Beautiful Bill' raising deficit, and new Japanese prime minister loosening fiscal policies).
- US administration pressures on the Federal Reserve could compromise its independence.
- Vulnerabilities to cyber attacks ongoing from geopolitical tensions and growing AI development and use.
- Increased 3rd party risk exposure to providers delivering services from countries more vulnerable to disruptions, or storing/processing data in such countries, potentially increasing the risk of service disruption.

### ...in context of muted economic outlook, stretched equity valuations and sensitive financial markets...

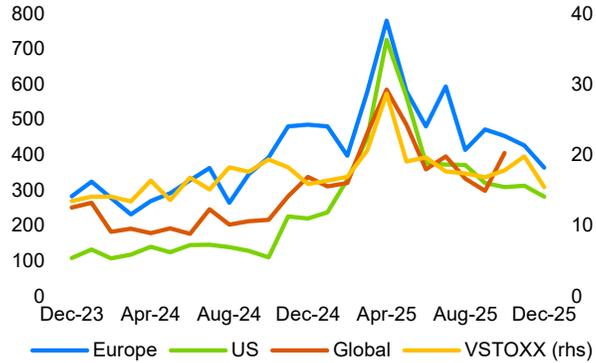
- European and global growth outlook remains muted with continuing uncertainty, energy supply disruption in the Gulf, and tariffs coming into effect.
- Record high equity valuations linked to AI raising concerns of corrections, given signs of market complacency to developments (low volatility in late 2025 despite geopolitical uncertainties) and elevated concentration of many portfolios in the US tech sector.
- Sovereign and corporate spreads remain sensitive to the global trade events (e.g. increases with Iran war in March 2026 and France in October 2025).
- Higher-for-longer rates continue to pressure funding costs. Reduces room for fiscal manoeuvre for sovereigns and raises debt sustainability concerns. Along with volatile spreads, these increase refinancing risk and chance that stress spreads to private credit, where poor covenant protection and high leverage may increase default risk.

### ...are keeping financial stability risks elevated

- Shifts in global trade conditions could drive rapid capital reallocation, volatility and associated liquidity risks.
- Risks of sudden market corrections, liquidity strains, contagion given geopolitical uncertainties and high stock valuations and tight corporate bond spreads
- Risk of restrictions on access to financial infrastructures in the context of geopolitical developments and from cyber attacks (e.g. to payment systems, ICT resources, and key financial service providers).
- If the Fed is perceived to lose independence, this could drive rapid investor shifts away from the US.
- Currency volatility and capital shifts could hamper hedging and international trade financing.
- Concentrated reinsurance arrangements heighten counterparty risk, while claims inflation and limited look-through of backing assets increase the risk of reserve inadequacy and asset-liability mismatches.

# Impact of geopolitical risks on financial sectors (2/2)

## Economic Policy Uncertainty index remains high



Note: Economic Policy Uncertainty Index (EPU), developed by Baker et al. (www.policyuncertainty.com), based on the frequency of articles in European newspapers that contain the following triple: "economic" or "economy", "uncertain" or "uncertainty" and one or more policy-relevant terms. Global aggregation based on PPP-adjusted GDP weights. Implied volatility of EURO STOXX 50 (VSTOXX), monthly average, on the right-hand side.

Sources: Baker, Bloom, and Davis 2015; Refinitiv Datastream, ESMA.

## Top 5 geoeconomic impacts for banks

Macroeconomic uncertainty, 3.48	Regulatory/policy uncertainty, 3.20	Increased compliance and due diligence costs, 3.02
Deterioration in asset quality or increased credit risk / provisioning, 3.21	Disruption to cross-border payments and transactions, 3.00	

Note: Top 5 geoeconomic impacts for EU/EEA banks (av. score, 1 – low, 5 – high)

Source: EBA risk assessment questionnaire and EBA calculations

## Interconnectedness also adds vulnerability...

- Potential asset quality deterioration and contractions in lending, particularly regarding banks with borrowers heavily exposed to global trade flows.
- EU banks' direct and indirect exposures to the US amplify vulnerability to external shocks, as seen in stock price reactions to announcements of US tariffs.
- Heightened credit risk from counterparties in risk countries posing heightened geopolitical risk.
- Risks heightened by interconnectedness of insurance sector with non-EEA markets. European Insurers direct investments to non-EEA are of ~EUR 1.2tn (13 % of total), via funds ~EUR 1.1tn (36% of investments in CIUs, reinsurance (risk ceded) is EUR 68 bn ~28% of the risk ceded.
- Rising exposures of alternative investment funds to US equities, along with increasing leverage.

## ...as does risk of regulatory divergence...

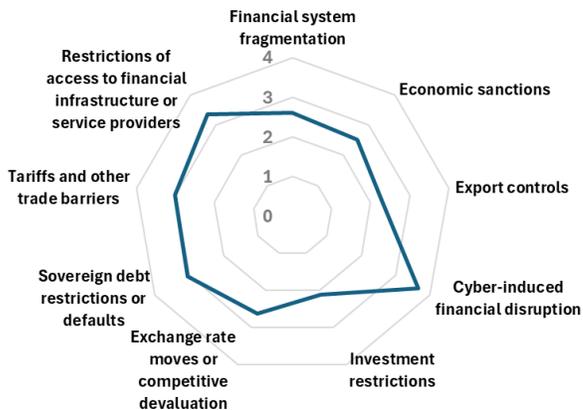
- Potential deregulation in the US may reveal differing trends in minimum capital requirements and as a result banks' willingness to expand balance sheets.

## ...with granular risks also present related to markets and infrastructures

- Regional unrest could have further disproportionate impacts on commodities
- Commodity shocks may drive insurance claims inflation, increased market volatility, and reduced disposable income for insurance policyholders. But could also result in less car usage, decreasing motor insurance claims.
- Risks of shocks to investment funds with a liquidity mismatch e.g. open-ended funds with illiquid assets
- High cyber risks, growing digitalisation, concentrated reliance on few providers (e.g. AI, cloud use) increase risks of market infrastructure disruptions (e.g. margin breaches, settlement fails).
- Crypto valuations fell back from record levels but stablecoins hitting new highs. Stablecoins smaller (10% of crypto) but increasingly integrated with traditional finance and highly concentrated (Tether 59% of total). These amplify spillover risks.

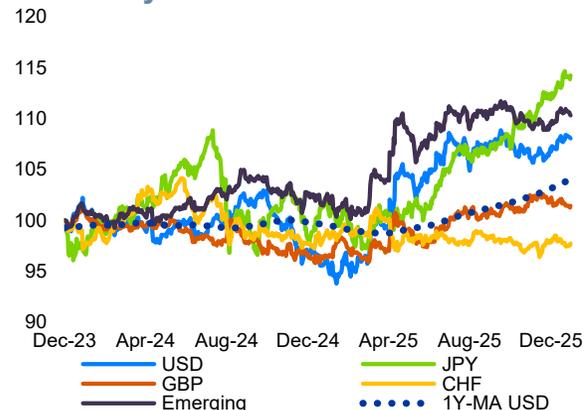
# Geopolitical risks continue to drive significant uncertainty with possible financial stability impacts

## Relevant geoeconomic factors for EU banks



Note: Relevance of potential geoeconomic factors for EU/EEA banks (1 – low, 5 – high)  
Source: EBA risk assessment questionnaire and EBA calculations

## Currency shifts could drive risks



Note: Spot exchange rates to EUR. Emerging is an average of spot exchange rates for CNY, BRL, RUB, INR, MXN, IDR and TRY weighted by GDP as of start date year. 01/04/2023=100. Increases in value represent an appreciation of EUR. 1Y-MA USD=one-year moving average of the USD exchange rate.

Sources: ECB, IMF, ESMA.

## Trade & GDP effects

- Higher energy prices could drive inflation and weaken GDP growth
- Tariffs coming into effect reduce EU exports to the US, slowing GDP growth.
- Credit risk may rise for industries heavily affected by tariffs, with potential bond downgrades.
- Investment returns expected to deteriorate especially on sectors highly exposed to supply chains hit by tariffs.
- Trade Credit Insurance & Non-Life Business mixed effects: could experience increase demand due to supply chain disruptions. But decline in global trade and recessionary pressures may reduce demand for products.

## Geopolitical risk can have broad implications for financial institutions

- With stretched equity valuations, declines are likely in EU and global equity markets in the medium to long term. Indirect effects on share prices of financial institutions exposed to geopolitical risk.
- High AI valuations may be vulnerable to corrections, especially if geopolitics disrupt supply chains or infrastructure access.
- Liquidity risks especially in case of US or tech/AI market correction are a concern for the fund sector.
- Commodity markets could be suddenly hit by regional events (e.g. in Iran, Ukraine and Venezuela).
- Risk of technological disruptions arising from dependencies on data, infrastructure, or service providers operating in 3rd countries affected by conflicts.

## Currency Risks

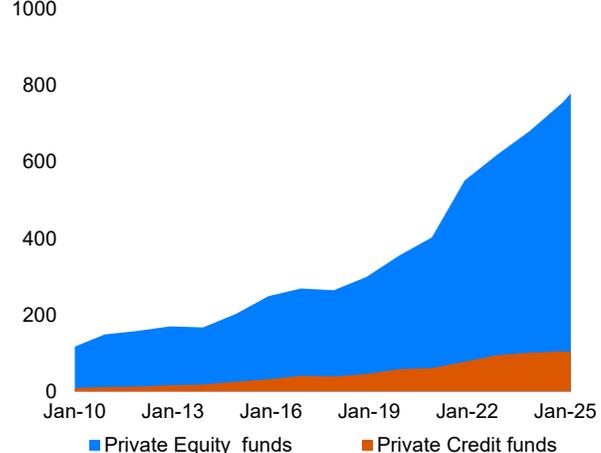
- Tariff-induced trade imbalances and diverging monetary policies may lead to euro volatility against dollar.
- Potential higher reinsurance costs for insurers as more exposed to currency volatility, and increased claims costs for insurers, particularly if in foreign currencies.

## Climate, cyber & health risks

- Decreased global cooperation hinders collective action on climate change and cybersecurity threats, leaving EU insurers and other financial institutions more exposed to systemic risks like extreme weather events, cyberattacks on critical infrastructure or pandemics.

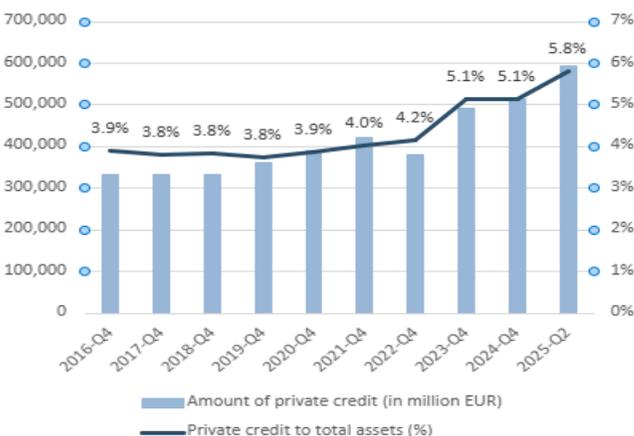
# Increasing role of private finance in NBFI sector in EU and globally

## EU private equity and private credit fund growth



Note: Assets under management by private equity and private debt funds with fund manager in the EU in EUR bn.  
Sources: Preqin, ESMA.

## Insurance exposures to private credit



Note: Insurer exposures to private credit (incl. illiquid bonds, mortgages, loans) in EUR millions and as % of total assets.  
Source: EIOPA (2025) December Financial Stability Report

## Private equity and private credit have grown rapidly over last 15 years

- EU private equity (PE) funds: EUR 0.8tn AuM Mar 2025 (+14% p.a. Dec 2010- Dec 24). Private credit (PC) funds: EUR 0.1tn AuM Mar 2025 (+18% p.a. Dec 2010- Dec 24).
- EU private finance size, much smaller than US, Asia; similar to UK.
- Private equity and credit are interconnected (e.g. private credit funds most private equity buyouts, private equity firms leverage investments with private credit). Buyouts dominate private equity.

## Private finance growth has come with increasing interconnectedness

- Interconnectedness with banks can be exacerbated by private finance, via both direct and indirect funding links. Its strong growth, combined with its opacity, increases risks. Banks have considerable exposures, esp. in US and UK, with exposures to Cayman Islands counterparties that also grew considerably over 2025. Bank funding provided by private finances exacerbates interconnections.
- More granularly, banks have links to private finance through capital sponsoring of vehicles (e.g. SRTs in Europe, private CLOs in US), direct lending (unsecured lending facilities, NAV and margin lending), through derivatives and SFT/repo, and through advisory functions (IPO, M&A, LBO).
- For insurers private credit exposures (also incl. illiquid bonds, mortgages, loans) were around 5.8% of total assets in Q2 2025. For IORPs, the figure 4.4% of total assets at the end of 2024.
- Insurers and IORPs exposure to private credit remain limited overall but with an increasing trend.

## Private finance offers benefits

- SIU will include provisions to increase private equity investment (e.g. EuVECA changes), for supporting start-ups and growth. This should help key sectors incl. tech, defence, health, and green finance.

## Developments at US semi-liquid Business Development Company (BDC) funds show vulnerabilities in private credit

- In Q1 2026, several flagship US semi-liquid BDC private funds experienced redemptions requests above limits
- Funds took steps to halt or limit redemptions, or extraordinary measures to finance requests
- Withdrawals associated with retail investors nervousness as AI hit software as a service to which many BDC exposed
- The ESAs are monitoring exposures of EU financial institutions to US private credit, which appear to be limited

## Overview of private finance risks and risk drivers

Market participants	Risk Drivers
<b>System-wide risk drivers</b>	<ul style="list-style-type: none"> <li>• Fast growth of private finance as complement to bank financing</li> <li>• Indirect lending by banks as funders of private equity and private credit firms</li> <li>• Potential procyclicality, wrong-way risks –bank-funding rises with private credit asset quality falls</li> <li>• Private credit not yet tested through business cycle</li> <li>• High complexity of contracts</li> </ul>
<b>Role of banks</b>	<ul style="list-style-type: none"> <li>• Capital sponsoring of vehicles</li> <li>• Bank lending (e.g. unsecured facilities, NAV and margin lending) to private finance providers</li> <li>• Bank funding provided by private finances exacerbates interconnectedness</li> <li>• Counterparties in derivatives and SFT/repo transactions</li> <li>• Advisory functions (IPO, M&amp;A, LBO)</li> </ul>
<b>Private equity and private credit fund risks</b>	<ul style="list-style-type: none"> <li>• Fund risks allegedly limited, but not transparent</li> <li>• Liquidity risk limited due to funds largely being close-ended or with long notice periods and long investor horizons</li> <li>• Leverage risk offloaded: Low fund leverage but high credit and leverage risks in invested firms;</li> <li>• Incentives: Unless General partners own stakes, limited incentives to manage risk</li> <li>• Contractual relations at arms-length but covenant-lite</li> <li>• Transparency: Low visibility of transaction conditions and risks; low valuation periodicity</li> </ul>
<b>Investor drivers</b>	<ul style="list-style-type: none"> <li>• Rising insurer/pension interconnectedness with private assets</li> <li>• Reliance on model-based and infrequent valuations → potential valuation uncertainty</li> <li>• Product and structural complexity limiting transparency and comparability</li> <li>• Long-term and illiquid investment horizons reducing market discipline</li> <li>• Ownership relations (private fund firms own insurers for funding)</li> <li>• Product complexity; long-term and illiquid investments</li> </ul>
<b>Regulatory drivers</b>	<ul style="list-style-type: none"> <li>• Private finance as a possible arbitrage vehicle away from capital requirements</li> <li>• Private capital markets less regulated than public</li> <li>• Low disclosure, reporting, transparency</li> </ul>

# Policy recommendations

## Relevant authorities and financial institutions should be ready to respond to geopolitical challenges

- **Prepare and plan thoroughly for risks using appropriate tools:** carry out scenario analysis of the potential impacts on exposures, capital, liquidity, funding, business models and operational resilience. Prepare for market volatility, liquidity risk, including risks of increasing credit spreads in both sovereign and corporate debt markets. Be ready to react to risks, including plans (e.g. recovery plans and adequate provisioning) to address challenges with specific regard to cyber threats, quantum computing and risks from rapid integration of AI models in financial markets.
- **Cautious management of sovereign exposures:** sovereign spending is on a rising trend amid geopolitical challenges and other spending needs. Rising sovereign debt might raise renewed concerns about sustainability. It will be important that financial institutions ensure cautious management of their sovereign exposures.
- **Consider geopolitical risks in risk management:** financial institutions should consider geopolitical risks in their risk management and formalise governance, enhancing due diligence, and embed it in scenario planning. Risk management frameworks should include qualitative assessments, e.g. expert judgement and strategic foresight. Operational and organisational planning should include worst-case scenarios in respect of geopolitical developments. Scenarios should include possible telecommunications and communication infrastructure failures or energy supply outages.

## Financial institutions, authorities and investors should monitor and manage risks associated with private markets

- **Investor due diligence given lack of transparency** in private markets: investors should exercise due diligence in monitoring performance and quality of investments, with risks associated with unclear, untimely valuations.
- **Bank understanding and monitoring of NBFIs and private finance exposures:** with growing exposures to private finance and unregulated part of the non-bank intermediaries, particularly to third countries, banks and supervisors need to ensure proper understanding, monitoring and risk management frameworks for such exposures. This includes proper monitoring of concentration risks of these exposures.
- **Insurer supervisors should monitor shift in risk taking in view of SII 2027:** The adjustments related to the 2027 SII Review could trigger reallocation of investments, which may influence insurers' risk profiles.