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DIRECTORATE-GENERAL FOR FINANCIAL STABILITY, FINANCIAL SERVICES AND CAPITAL
MARKETS UNION

Director General

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Mr José Manuel Campa
Chair
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By e-mail:
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**Subject: Request for submitting indicators on the interconnectedness of the EU
financial sector with global markets**

Dear Mr Campa,

On 19 January 2021, the Commission issued the Communication “The European economic and financial system: fostering openness, strength and resilience” ⁽¹⁾, which set out a strategy for responding to the challenges posed by a quickly evolving geopolitical and economic context. It put forward several actions under three main pillars: strengthening the international role of the euro; further developing and enhancing the resilience of the financial sector; and further improving the effectiveness of the EU regime of economic sanctions. The Commission re-affirmed its commitment to actively promote economic security in the Union through its Communication on the “European economic security strategy” from 20 June 2023. ⁽²⁾

⁽¹⁾ The full text of the OSR Communication can be found on the following webpage eur-lex.europa.eu/legal-content/FR/TXT/PDF/?uri=CELEX:52021DC0032.

⁽²⁾ The full text of the Communication on EES Strategy can be found on the following webpage eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52023JC0020. In a further Communication from 24 January 2024, the Commission introduced five new initiatives to advance European economic security, <https://commission.europa.eu/system/files/2024-01/Communication%20on%20European%20economic%20security.pdf>.

Fulfilling a mandate by the Commission issued on 29 June 2021, the European Banking Authority published in October 2022 a report⁽³⁾ containing its assessment of the EU dependence on non-EU operators for the provision of critical financial services and the excessive reliance on funding in foreign currencies of EU banks.

The report did not raise general concerns at EU aggregate level. However, the assessment identified some business areas and bank assets where non-EU operators hold a significant portion of the market share at EU level and in some Member States. It also shed light on the importance of EU banks' funding in some foreign currencies and on the level of EU banks' resilience under stressed liquidity conditions. In both cases, the report concluded that under specific stress conditions the degree of reliance on non-EU operators and on foreign currencies could be sources of disruption.

Building on this report, DG FISMA is monitoring the interconnections of the EU financial sector with global markets and the potential vulnerabilities that could cause or amplify risks to the EU financial system or the EU economy as a whole. For this reason, DG FISMA has defined a set of specific indicators tracking the evolution of the external inter-connectedness of the EU financial sector. For banking services, those indicators aim to analyse the market share in different types of products or market segments of subsidiaries of non-EU banks in the EU and the EU banks' exposure in foreign currencies.

The indicators will not be made public but inform the Commission services' own assessment of the extent of the external interconnectedness and the related financial stability implications.

At technical level, DG FISMA has been in contact with EBA experts to explore and complete the conceptual design and the feasibility of the indicators in the area of banking services. I would like to take this occasion to thank your team for the substantial contribution that it has already provided to the project.

Going forward, I would hereby request the EBA to provide the Commission with some aggregate indicators of external inter-connectedness in a limited number of areas (see indicative annex). These aggregate indicators have been conceptually designed and agreed upon at technical level by experts from DG FISMA and EBA, on the basis of the Commission's analytical needs, EBA's available resources, whilst also considering actual data availability and regulatory legal constraints.

The EBA is invited to submit the aggregate indicators, if and when relevant, with a meaningful breakdown by third country and for the different products, sub-segments or currencies, also taking into account your resources constraints. DG FISMA is not requesting access to the underlying data that the EBA uses to compute the aggregate indicators. The EBA is also invited to provide explanatory notes in order to facilitate the proper understanding of the aggregate indicators and the assessment by the Commission.

I would be grateful if the EBA could provide the available indicators (end-2023 data) for exposures and funding in foreign currencies and the related explanatory notes by mid-November 2024 and those relating to assets, liabilities and income (end-2023 data) by the first quarter of 2025.

(3) EBA/REP/2022/22, EBA report - Analysis of the EU dependence on non-EU banks and of EU banks' dependence on funding in foreign currency, https://www.eba.europa.eu/sites/default/files/document_library/Publications/Reports/2022/1040006/Report%20on%20EU%20dependence%20from%20non-EU%20entities_Publication.pdf.

We remain at your disposal for any questions.

Yours sincerely,

Electronically signed

John BERRIGAN

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ANNEX: List of requested indicators

Assets (EU total value; EU market share of non-EU banks; non-EU concentration index)

1. Total risk exposure amount
2. Total assets
3. Cash, cash balances at central banks and other demand deposits
4. Derivatives
5. Equity instruments
6. Debt securities
7. Loans and advances

Liabilities (EU total value; EU market share of non-EU banks; non-EU concentration index)

1. Own Funds
2. Common Equity Tier 1 Capital
3. Derivatives
4. Deposits

Income (EU total value; EU market share of non-EU banks; non-EU concentration index)

1. Interest income
2. Interest expense
3. Dividend income
4. Fee and commission income
5. Fee and commission income

Exposure and funding in foreign currencies (EU total value; EU market share of non-EU banks)

1. Funding in foreign currencies
2. Exposure in foreign currencies