



JOINT COMMITTEE OF THE EUROPEAN
SUPERVISORY AUTHORITIES

PRESS RELEASE

European Supervisory Authorities highlight cross-sectoral risks

The Joint Committee of the European Supervisory Authorities (ESAs) has published its second bi-annual *Report on Risks and Vulnerabilities in the European Union's (EU) Financial System*.

The Report has identified the following key cross-sectoral risks to the stability of the European financial system:

- the weak macro-economic outlook;
- the protracted low-interest rate environment;
- EU financial sector fragmentation; and
- reduced confidence in balance sheet valuations and risk disclosures.

These risks, already highlighted in the first Joint Committee's Risk Report published in April this year, have increasingly been brought into focus following a series of developments that took place since then. In particular, increased volatility in longer-term interest rates and concerns about the future path of interest rates - combined with the current low interest rate environment - created uncertainty for financial institutions in their hedging and impacted profitability.

When it comes to cross-border banking activity, there is strong evidence of a fragmented European financial sector, and in particular of a material scale back of intra-EU cross-border lending into economies experiencing sovereign stress or recession. There is also uncertainty on the timely and proper recognition of losses that are embedded in portfolios of financial assets. Market uncertainties regarding perceived inconsistencies in the calculation of banks' risk weighed assets (RWAs) have further affected the perception of EU banks. Conduct of business risks also continues to be a concern from both a conduct and prudential perspective.

Since the previous publication in April 2013, some important policy milestones reinforcing the EU financial regulation have been reached. These address a number of the concerns mentioned above, and include the adoption of the Capital Requirements Directive and Regulation, the Council's general approach on a framework for Banking Recovery and Resolution, and, in particular, the agreement on establishing the Single Supervisory Mechanism (SSM) for banks. Prior to starting the SSM, action will be taken across the EU in order to address uncertainties in balance sheet valuations.

In addition, ESMA and the EBA have also developed a series of Principles for Benchmark-Setting Processes in the EU which aim to address public concerns about these widely used benchmark setting processes, while EIOPA continued to work with national supervisory authorities on their responses to a prolonged low interest rate environment and delivered its technical advice on the way forward for the introduction of the Solvency II long-term guarantee package.

Gabriel Bernardino, Chairman of EIOPA and current Chairman of the Joint Committee, said:

"The integration of financial markets in the EU no longer allows us to address risks at national or sectoral level only, as interconnectedness across financial sectors and geographies is high. This requires us, both regulators and policymakers, to take a much broader view in order to identify cross-sectoral risks and to address and mitigate the threats to the stability of the financial sector.

"It is, therefore, crucial that the three ESAs continue to coordinate their policy actions in addressing, and mitigating the risks our markets face. The Joint Committee's Risk Reports play a key role in providing a cross-sectoral picture on risks and informing the work of policy makers, and regulators, in developing appropriate responses".

Besides work on specific policy, firms' actual conduct-of-business risks vis-a-vis consumers remained another concern from both a conduct and prudential perspective. As ultimately, ensuring the interests of investors are met no matter what financial product is sold remains a key driver of the ESAs' work.

Notes for editors

The Joint Committee is a forum for cooperation that was established on 1st January 2011, with the goal of strengthening cooperation between the European Banking Authority (EBA), European Securities and Markets Authority (ESMA) and European Insurance and Occupational Pensions Authority (EIOPA), collectively known as the three European Supervisory Authorities (ESAs).

Through the Joint Committee, the three ESAs cooperate regularly and closely and ensure consistency in their practices. In particular, the Joint Committee works in the areas of supervision of financial conglomerates, accounting and auditing, micro-prudential analyses of cross-sectoral developments, risks and vulnerabilities for financial stability, retail investment products and measures combating money laundering. In addition to being a forum for cooperation, the Joint Committee also plays an important role in the exchange of information with the European Systemic Risk Board (ESRB).

The full text of the report can be viewed here:

<http://www.esma.europa.eu/content/Joint-Committee-report-risks-and-vulnerabilities-EU-financial-system-August-2013>

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