

PRESS RELEASE

Joint Committee of the European Supervisory Authorities calls for action on cross-sectoral risks

- *First report by the Joint Committee of the European Supervisory Authorities (ESAs) on cross-sectoral risks facing the EU financial system;*
- *Key risks facing EU financial markets include weak macroeconomic outlook; low interest rate environment; risk of further fragmentation on the single market; increased reliance on collateral; the quality of financial institutions' assets; lack of confidence in financial institutions' balance sheet valuations and risk disclosure; loss of confidence in financial benchmarks;*
- *The ESAs have closely monitored the situation in Cyprus as it has developed. The events will lead to losses throughout the financial sector in Cyprus. However, the risks of direct international contagion seem to be limited.*

The Joint Committee of the European Supervisory Authorities (Joint Committee) has published today its first *Report on Risks and Vulnerabilities in the European Union's (EU) Financial System*.

The publication identifies the key cross-sectoral risks facing the EU's financial markets and system, and sets out recommendations on how these can be addressed through coordinated policy and supervisory action by policy-makers, the ESAs and Member States.

The report is the first of what will be a regular publication by the Joint Committee on cross-sectoral financial market risks in the EU.

Gabriel Bernardino, Chairman of EIOPA and current Chairman of the Joint Committee, said: "Today's first report by the three European Supervisory Authorities has identified some key cross-sectoral risks facing the EU's financial system including, in particular, the risk of fragmentation, over-reliance on collateral, concerns with regard to the quality of financial institutions' assets, and the loss of confidence in institutions and benchmarks. This cross-sectoral work

provides EU policy-makers and regulators with an overall view of the risks they face and moves us away from a narrow sectoral approach, and the inherent risk of failing to see the big picture".

Risks

The report has identified the following risks the EU financial system is facing:

1. Weak macroeconomic outlook and consequently a deterioration for financial institutions' asset quality and profitability;
2. Low interest rate environment;
3. Risk of further fragmentation on the single market ;
4. Increased reliance on collateral;
5. Lack of confidence in financial institutions' balance sheet valuations and risk disclosure; and
6. Loss of confidence in financial benchmarks.

Recommendations

In light of the findings in the report, the Joint Committee believes that only a concerted response by policy-makers and EU Member States can restore the confidence and trust that has been eroded during the financial crisis.

The Joint Committee urges the EU political leaders to press ahead with the establishment of Banking Union, including the Single Supervisory Mechanism, and bank resolution schemes. In their turn, the ESAs remain committed to fostering supervisory convergence, amongst others, through a strong role in supervisory colleges and through the development of both the EU-wide Single Rulebook and Supervisory Handbooks.

During the crisis, the ESAs have successfully facilitated on-going open communication among national authorities within supervisory colleges and ESA financial stability groups. This was only possible because of the trust that has been built up in recent years with the establishment and coordination of these groups.

Note on the developments in Cyprus

The cut-off date for this report was 13 March 2013. Therefore, recent events in Cyprus are not discussed in the publication. The ESAs have closely monitored

the situation in Cyprus as it has developed. The winding-down of Laiki Bank and the restructuring of Bank of Cyprus will lead to losses throughout the financial sector in Cyprus, but the risks of direct international contagion seem to be limited. So far, market conditions and deposit dynamics have remained relatively stable. Recent events manifest the risk of further fragmentation of the single market and underscore the need for closer coordination and integration, including in supervisory colleges, and through full implementation of the banking union.

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 in section "The Joint Committee" on EIOPA website.

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