



ESRB

European Systemic Risk Board

European System of Financial Supervision

PRESS RELEASE

The General Board of the European Systemic Risk Board held its 35th regular meeting on 26 September 2019

2 October 2019

At its meeting on 26 September 2019, the General Board of the European Systemic Risk Board (ESRB) discussed the rising threat of protectionism and the geopolitical uncertainties that have led to a further deterioration in the outlook for growth. In this context, markets are expecting that the interest rates remain low for a prolonged period of time. As a result, financial market repricing, the balance sheet vulnerabilities of European Union (EU) financial institutions and unsustainable indebtedness remain the main risks to financial stability in the EU. The weaker economic outlook could further increase the vulnerabilities of EU financial institutions and pose a challenge to debt sustainability in the public and private sectors.

The ESRB conducted a cross-country assessment of vulnerabilities in the residential real estate (RRE) sector. According to this analysis, most European countries are currently in a firm or mature expansionary phase of the RRE cycle, and policy action in some countries needs to be intensified. The ESRB issued five country-specific warnings and six country-specific recommendations after observing pockets of risk in the RRE sectors of certain EU countries.

Furthermore, the General Board considered a framework that should also enable the ESRB to assess vulnerabilities related to the commercial real estate sector and the adequacy of the macroprudential policy responses to address them. However, more reliable and comparable data across countries are a pre-requisite for the framework to be fully operational. Conceptually, the approach resembles the methodological framework used for the analysis of the RRE sector, which the ESRB has documented in a recently published report⁽¹⁾

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and used as a basis for the above-mentioned warnings and recommendations. The framework for commercial real estate needs to take into account the particular features of that sector, including the important role played by foreign institutional investors. The ESRB will publish this report in the coming months.

The provision of financial services across borders is an important feature of ongoing financial integration in the EU. Financial service providers can offer their services in another Member State through a branch that, contrary to a subsidiary, remains under the supervision of the provider's home country. While the provision of cross-border financial services via foreign branches is not yet widespread in the EU financial system, it is important, from a financial stability perspective that the authorities in the host country can obtain sufficient information on these branches. Indeed, some foreign branches are of significant, or even systemic, importance to the domestic financial system, for example, owing to their market share, size, interconnectedness or provision of critical services. **In this regard, the General Board discussed the key issues related to the exchange and collection of information on branches of credit institutions for macroprudential purposes.**

Post-crisis regulatory reforms have resulted in a large percentage of derivatives being centrally cleared or subject to bilateral collateral requirements. This includes the exchange of variation margin, the posting of initial margin and the application of collateral haircuts. These regulatory reforms have made the financial system safer by preventing the build-up of unsecured exposures, thereby reducing counterparty credit risk and the risk of contagion in case of default. A side effect of the greater use of collateral is the transformation of the systemic risk profile from credit risk to liquidity risk, as market participants need to be able to provide high quality collateral at short notice in response to movements in market prices. A previous [ESRB report](#) includes a comprehensive analysis of procyclicality risks stemming from margins and haircuts, and sets out a broad list of potential macroprudential tools that could be considered to address them. **The General Board exchanged views on an interim report of the Expert Group on Margins and Haircuts, which revisits and extends the previous ESRB findings regarding procyclicality associated with margin and haircut practices. The ESRB will publish this interim report in the coming months and will continue to explore relevant policy options.**

The ESRB is releasing the 29th issue of its risk dashboard today. The risk dashboard consists of a set of quantitative and qualitative indicators of systemic risk in the EU financial system.

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