



JOINT COMMITTEE OF THE EUROPEAN  
SUPERVISORY AUTHORITIES

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## PRESS RELEASE

### **ESAs identify vulnerabilities affecting the EU financial system and suggest actions to address the main risks**

The Joint Committee of the European Supervisory Authorities (EBA, EIOPA, ESMA - ESAs) published today its Spring 2016 Report on Risks and Vulnerabilities in the EU Financial System.

The Joint Committee highlights three main risks affecting the European financial system and suggests a set of policy actions to tackle those risks:

#### **1. Low profitability of financial institutions in a low yield environment.**

Yields in Europe remain at historical lows and risks concerning the low profitability of financial entities pose key concerns to the EU financial system.

As financial institutions intend to reduce costs and adjust their business models, forward-looking supervisory approaches to scrutinize business model sustainability are needed. A proactive stance to address still high stocks of non-performing loans at banks in some regions is also needed.

#### **2. Increasing interconnectedness of bank and non-bank entities.**

Over the last five years the role of non-bank and non-insurance financial institutions has increased. The interconnectedness between different entities represents a potential channel for the propagation of shocks.

The Joint Committee believes that this risk should be tackled through enhanced supervisory monitoring of concentration risks, cross border exposures and regulatory arbitrage.

### **3. Potential contagion from China and other emerging markets.**

After a decade of positive contribution to the global economic growth, economic activity in China and other emerging markets has started to recede.

The Joint Committee calls on national supervisors to include emerging market risk in sensitivity analyses or stress tests and to scrutinise optimistic assumptions of financial institutions with regard to emerging market exposure and returns from emerging market business.

Gabriel Bernardino, Chairman of the European Insurance and Occupational Pensions Authority (EIOPA) and the current Chairman of the Joint Committee, said:

*“The financial service industry struggles to offer adequate level of profitability and increasingly turns to a search-for-yield behaviour. Therefore, it is crucial that the supervisory community adopts a forward-looking perspective, challenging business model sustainability. The Report suggests a number of measures that will help supervisors addressing the identified risks in a consistent way.*

*The Joint Committee is fully committed to continue promoting supervisory convergence to further eliminate supervisory arbitrage and improve the stability and confidence in the EU financial system. We will be monitoring the developments and bilaterally engaging with the national supervisory authorities”.*

Joint Committee Report on Risks and Vulnerabilities to the EU Financial System:  
<https://goo.gl/7gwric>

#### **Notes for editors**

The Joint Committee is a forum for cooperation that was established on 1 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 to 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, the Joint Committee also plays an important role in the exchange of information with the European Systemic Risk Board (ESRB).

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