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The role of the ESRB in maintaining the financial stability during the Covid-19 Pandemic

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Abstract

The financial crisis of 2008 made it necessary to build-up a new European architecture, in terms of banking and financial supervision. These needs have led to the creation, among others, of new various bodies including the ESFS and the ESRB. The new crisis, triggered by the covid-pandemic, represents the real test bed, the real challenge for these European institutions and, more broadly, for the new European architecture.

In the aforementioned paper, specific attention will be paid to the ESRB, its organization, its powers, the role and the measures that the ESRB has put in place to mitigate and eliminate the negative consequences of the pandemic and preserve the stability of the financial market, also the causes that led to the establishment of this body will find space.

Key words: Covid-19 Pandemic, Economic Crisis, Financial Instability, ESRB, ESFS, Soft Law and Hard Law

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I. Introduction

The reasons and the motives, that put the basis and lead to the creation of the **European System of Financial Supervision (ESFS)** and **European Systemic Risk Board (ESRB)**, can be found in the financial crisis of 2008 and in the imperfect union that characterized the European Union. As a matter of fact, the financial crisis, expose all the weakness in terms of micro and macro-oversight, upon the financial and banking system. So, after the 2008 crisis, a major, more strict regulation and supervision was needed. As a countermeasure to the negative externalities and aftermath of the 2008's catastrophe, a group led by de Larosière, was appointed to understand the causes the lead to the disastrous consequences in Europe, and write a report, where writing all the recommendations to reinforce and compensate for the shortage of oversight. So, in 2010, after following the advice in that report the ESFS was created, with the main scope of oversight over the European financial market. This system is composed by a series of European Bodies charged with Micro-oversight (*like the EBA, EIOPA, ESMA*) and Macro-oversight (*the ESRB, which is the European institution, subject of our research*). Thus, we come to the present days. Nowadays, the entire world, and unfortunately Europe more than other, are they are in the eye of the storm, due to a new economic crisis, born not form economic or financial factors as the 2008 crisis, but form a health crisis. The pandemic currently underway is launching new challenges not only in the scientific world, but also in the economic-financial field, where new European institutions born from the previous crisis are now under pressure to prevent the situation from worsening and guarantee market stability. Among the various new institutions, the ESRB is certainly one of the most important, and its role today more than ever is of vital importance to ensure the financial stability of the markets in these uncertain periods.

This research paper's scope, is to analyze the background, the causes that put the basis to the creation of something that could cover all and flaws in the European surveillance system on financial markets, which will take the name of ESFS and, more importantly, to the creation of the ESRB, which is our main research object. So, we will focus on this latter institution, considering also the role played by the financial crisis, the de Larosière group and consequent report, the meaning behind the establishment of the ESFS, considering the plenty task that the European Systemic Resolution Board actually covers, then we will analyze the role that the Latter covered during the Covid-19 pandemic. In the end, I will give my personal opinion upon the future development of the ESRB role in Europe.

II. Analysis

1. The origins, the motives that lead to the creation of a new European system for overseeing over the Financial Markets

Before talking about the ESRB, and what it does, it's important to address the causes that prompted the European legislators and the commission to review, strengthen and even launch new bodies, among which the ESRB. After the 2008 financial crisis, it was clear that something was not working properly inside the European Vigilance of the financial market, both micro and macro. As a matter of fact, when the speculative bubble explodes in United States, no one in Europe was ready to face it, and as worst thing, no one knew what to do or how to behave. Therefore, to counter this lack of supervision, instill new confidence not only in the markets, but also in people, and strengthen the stability of the financial market, in 2008 the European Commission lead by Barroso, tasked a High-Level Group, chaired by Mr. Jacques de Larosière, to consider how financial supervision could be strengthened to better protect European citizens and rebuild trust in the financial system¹.

The main task of this group was to identify the main causes to the 2008 financial crisis, the various link and connection between the macroeconomics and regulation policy, understanding the mistakes made and what went wrong, proposing the creation of a supranational system, (*which will be known as European System of Financial Supervision*) and lastly proposing solutions and recommendations for the future, leading on the establishment of "a more efficient, integrated and sustainable system of supervision"². The result of the work of this group was the de Larosière Report (2009), which contained a series of conclusion and recommendations for the creation of a strong system at European level to supervise risk in the financial system as a whole, so both micro and macro, able to contrast efficiently and quickly the possible future crisis, capable to guarantee supranational coordination among the Member State's competent Authorities, Central Banks and capable to ensure Financial Stability in the market. Following these recommendations, a ESFS was established in 2010³ and became operational the first of January of the following year.

¹ ESRB: <https://www.esrb.europa.eu/about/background/html/index.en.html>

² (Mario P. Chiti · Vittorio Santoro) The Palgrave Handbook of European Banking Union law pag.12

³ (Mario P. Chiti · Vittorio Santoro) The Palgrave Handbook of European Banking Union law pag.13

2. The European System of Financial Supervision (ESFS), a brief description

As said previously, the ESFS was established in 2010, following the report's recommendations, which aimed to give to the European Union a new regulatory and supervisory architecture, a new legislative framework more effective not only in increasing the financial integration and supervision of the area, but also in promoting coordination between national supervisory authorities.



The new European framework for the financial supervision, represented by the ESFS, is a network centered around three European Supervisory Authorities (ESAs), the ESRB and national supervisors⁴.

Source: European Council



precisely, this system can be schematized as follow:

- In the first branch we have the micro-prudential oversight, (*even if is not the aim of our research is worth noting know how the ESFS is made*) which is sub-divided into three main institutions, that watch over different aspect of the financial market, to ensure its stability:
 - The **EBA**,
 - The **EIOPA**,
 - The **ESMA**.
- The second branch, (*what we are interested in for our research*), where we have the Macro-prudential supervision, assigned to the ESRB.
- National supervisors and competent authority, of each Member State, including those that have not adopted the Euro as currency.

The main task covered by the European System of Financial Supervision, is rather general, but yet important. It have the task to ensure that the rules applicable to the financial sector are adequately implemented across Member States to preserve financial stability, promote confidence and provide protection for consumers⁵ and developing a common supervisory culture and facilitating a single European financial market⁶. Overall, we can certainly state that the creation of such system to oversee over the market, with all the various

⁴ ECB: <https://www.bankingsupervision.europa.eu/about/esfs/html/index.en.html>

⁵ European Parliament, European System of Financial Supervision, 11-2020: <https://www.europarl.europa.eu/factsheets/en/sheet/84/european-system-of-financial-supervision-esfs->

⁶ European Parliament, European System of Financial Supervision, 11-2020: <https://www.europarl.europa.eu/factsheets/en/sheet/84/european-system-of-financial-supervision-esfs->

implication is an important cornerstone of the completely reshaped regulatory landscape for the European banking industry⁷.

3. The Organization and Tasks of the European Systemic Risk Board (ESRB)

A. Brief Introduction and Legal Basis

One of the most important elements that were born, in the aftermath of the 2008 financial crisis, following the de Larosière recommendations, was the **European Systemic Risk Board (ESRB)**, which constitute an integral part of the **ESFS**. Let's start our description by clarifying that, the **ESRB** is neither an agency nor an institution, is not even an entity, but rather a meeting or more properly a board which is constitute by several different elements, which is charged of the Macro-Prudential Supervision of the European Market. The ESRB, was established in 2010, by a Regulation under art 114 TFEU and it have is legal basis upon the Regulation (EU) No 1092/2010 and just recently a new regulation came into force in 2019, Regulation (EU) 2019/2176⁸.

Two aspects, however, makes this "Board" rather interesting: the lack of **binding powers** and the lack of **legal personality**. These two aspects, *particularly the lack of binding power*, raise, in my opinion, important questions, especially with regard to *the real operational efficiency that the ESRB has* and also regarding *how this deficiency can play for or against its supervisory role over the entire European financial sector*.

B. ESRB's Structure

The lack of legal personality, the fact that the ESRB is more a meeting, so an aggregation of various institutions, rather than a legal entity and the fact that it was conceived as a "soft law body without legally-binding powers", they give this Board a structure which is rather particular. *As you can see from this Figure*, the ESRB, is made up by the ECB, the three ESAs, and various other institutions, which sit in the various organs of this Board.

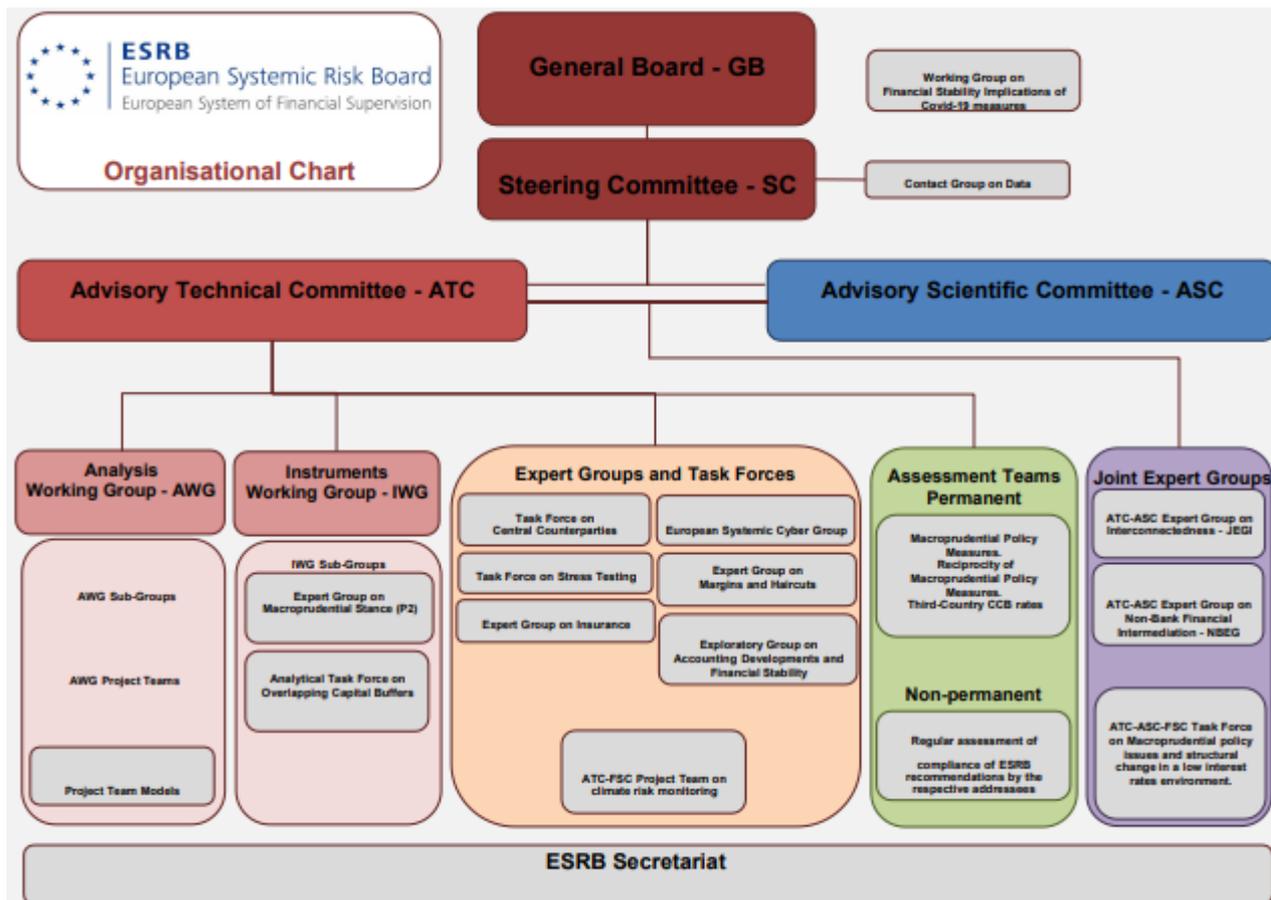


Source: ESMA

⁷ (Mario P. Chiti · Vittorio Santoro) The Palgrave Handbook of European Banking Union law pag.75

⁸ ESRB: <https://www.esrb.europa.eu/about/background/html/index.en.html>

(From this second plot, we can better appreciate the ESRB organization, in various committees)



Source: ESRB Organisational Chart

We should also remember that, the ESRB, is composed by a series of different board and committee, each of them with specific tasks, power and composition. These are:

- **General Board**, which is chaired by the President of the ECB plus other members of other European agencies such as the EBA, ESMA, EIOPA and others. It represents the ESRB's decision-making body and it shall take the decisions necessary to ensure the performance of the tasks entrusted to the ESRB⁹ (*macroprudential oversight of the financial system*). This Board meets at least four times a year, but in case of exceptionality, can hold more meetings.
- **Steering Committee**, which supports the organization of the General Board meetings, review the analysis presented by the ESRB advisory bodies and discusses the macroprudential policy agenda of the ESRB¹⁰.
- **Advisory Technical Committee**, which provides advice and assistance on issues relevant to the work of the ESRB, it also reviews of financial stability conditions in the EU, possible development of macroprudential policy instruments available to the competent authorities of the Member States, particular advice on the draft regular reports and in particular it can prepare opinions on certain aspects of directives¹¹.

⁹ Reg. No 1092/2010 Art.4(2) and Art.6 <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32010R1092&from=EN>

¹⁰ Reg. No 1092/2010 Art.4(3) and Art.11 <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32010R1092&from=EN>

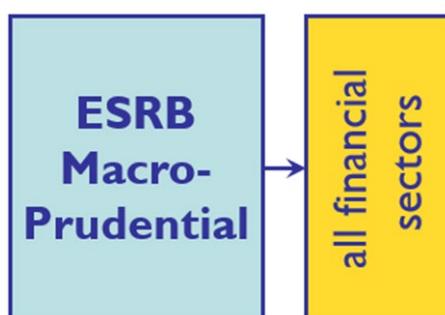
¹¹ Reg. No 1092/2010 Art.4(5) and Art.13 <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32010R1092&from=EN>

- **Advisory Scientific Committee**, which conducts research to inform macroprudential decisions by the General Board, it contributes also to detecting risks and assess potential impacts of their materialization¹².
- The **Secretariat**, which is responsible for the daily business of the ESRB, and provide administrative, analytical and statistical support to its committees¹³.
- In addition to they, a **Working Group** was established during the Covid-Pandemic, with the purpose to help the ESRB in the Implementation of its Recommendations and monitoring the stability implications of fiscal measures deployed to protect the real economy.

Together they constitute the **ESRB** and assure the correct functioning of this board.

C. ESRB's Powers

The ESRB main purpose is, as said before, devoted to the macroprudential oversight and preserve and guarantee the stability of the market, and this is clearly explained in the Regulation 1092/2010 Art.3, which states: *"The ESRB shall be responsible for the **macro-prudential oversight of the financial system within the Union**, [...], It shall contribute to the smooth functioning of the internal market and thereby ensure a sustainable contribution of the financial sector to economic growth"*.



The ESRB, will pursue its tasks and goals, by collecting data, analyze the relevant information¹⁴, exchange information with other European Bodies¹⁵ issuing warnings¹⁶ and recommendations¹⁷. (The latter two, represent its main "tools", but they don't have any binding power). Through these operations, the ESRB is able to guarantee the preservation of financial stability. The greatest peculiarity of the ESRB, is represented by the fact that it finds itself, inside in a "hybrid framework" which combine both elements of soft and hard law, where

hard power is potentially available, but not to directly, which is a rather interesting characteristic for a such important "institution", because: *"despite being entrusted with such a complex task, the macroprudential surveillance over all financial sectors, has no Hard Power (Binding Power)"*.

As a matter of fact, the ESRB, will depend on other European institutions and Agencies for the enforcement of its recommendations into concrete action¹⁸. From that we can acknowledge that, the ESRB within the macroprudential contest, *can do anything to ensure the stability over all financial sectors, but to do so, it has to go to some institutions which has the "Hard Power"*, like the European Council or from one of the ESAs ¹⁹.

¹² Reg. No 1092/2010 Art.4(5) and Art.12 <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32010R1092&from=EN>

¹³ Reg. No 1092/2010 Art.4(4) <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32010R1092&from=EN>

¹⁴ Reg. No 1092/2010 Art 3(2) Par.(A) <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32010R1092&from=EN>

¹⁵ Reg. No 1092/2010 Art.15(1) and 15(2) <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32010R1092&from=EN>

¹⁶ Reg. No 1092/2010 Art 3(2) Par.(C) <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32010R1092&from=EN>

¹⁷ Reg. No 1092/2010 Art 3(2) Par.(D) <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32010R1092&from=EN>

¹⁸ Can Soft Law Bodies be Effective? Soft Systemic Risk Oversight Bodies and the Special Case of the European Systemic Risk Board (pag 32) (E.Ferran, K.Alexander, 2010)

¹⁹ Reg. No 1092/2010 Art 17 Par. (I) <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32010R1092&from=EN>

The way in which this board has been set up and its characteristics make it, in my opinion, less efficient at responding to critical situations, such as financial crises, where greater power could lead to faster and more effective solutions.

4. The current financial crisis, triggered by the Covid-19 pandemic and the role covered by the ESRB in stabilizing the Financial conditions and coordinating the European measures.
 - A. The consequence of the Covid-19 Pandemic over the Financial Stability and the economy in the European Union, the background that the ESRB has to Face.

At the beginning of the 2020, last year, a new crisis was at the horizon. This new Crisis, with unexpectedly heavy negative externalities on the economy, financial stability, social life, surprisingly enough, didn't originate from economic or financial factors like previous crises, notably the 2008 financial crisis. The current crisis originates from a sanitary crisis, the Covid-19 virus outbreak which makes it rather unique and, in my opinion, more dangerous and maybe even more difficult than other recession to overcome, because until we don't find an appropriate vaccine, we cannot exit from this crisis and come back to normality; the only thing that we can do is live with it and wait.

With the worldwide spreading of the Covid-19, the world had experimented an economic/financial crisis as never before. As a matter of fact, unlike in the global financial crisis of 2008, *this shock is exogenous and universal across all countries and sectors*, although some sectors are more severely affected. The necessary containment measures are adversely impacting economic activity through a fall in domestic and foreign demand, as well as a decline in production, which is in part due to disrupted supply chains²⁰. With the virus hitting the economies worldwide, uncertainty reigns supreme, and this uncertainty, is fueled by the inability to predict when the pandemic will end, and this is negatively affecting the stability of both the national economies and financial market.

With the diffusion of the virus, firstly in China, then in some part of the world like in Italy, and lastly worldwide, many were the sector of the economy that were interested by the spreading of the virus, we in our research will focalize on the financial stability aspect and on the recommendations and positions taken by the ESRB, also considering the general impact on the economy.

At European level, the pandemic hit the various sector of the economy of each Member States in a different way, what we can state for sure, the severity of the impact of the Covid-19, at least upon the private non-financial sector (*non-financial firms and households*), financial sector (*banks and other non-bank financial intermediaries*) depended directly by the availability of a more or less large enough liquidity buffer, so the capacity for firms and people to withstand, to the crisis and also form the decreasing demand and production of good, which affected all the sector of the economy in a different manner.

In the first moments, Governments in Europe, weren't prepared to react and they actually didn't know what to do, this was due to the exceptional nature of the moment. So, The, first action that Member States

²⁰ The General Board of the European Systemic Risk Board held its 37th regular meeting on 2 April 2020
<https://www.esrb.europa.eu/news/pr/date/2020/html/esrb.pr200409~a26cc93c59.en.html>

taken, considering the high contagiousness of the virus, to avoid an uncontrolled spread and an uncontrolled increment of the cases, was to implement strict measures that limit not only the mobility of people Europe between the Member States, but also imposed strict measure that restrict severely almost every economic activity. These measures deploy necessary to contain the virus's spreading, have brought a severe and unprecedented shock to Europe's economies, as we have viewed before. They had led to a decisive sharp reduction of the demand of good that are deemed to be "non-essential" and especially services. Moreover, these measures affected negatively not only the demand, but also the production of good suffered as well as all the sectors closely integrated in global supply chains²¹. So, Disruptions in supply are accompanying the decline in demand²².

This, therefore, had led to an increasing pressure upon the supply of credit to the real economy, which has become a major concern²³ worldwide, since non-financial firm face an increasing funding shortfall, and fall on sales, demand for bank credit, has risen. Contemporary the tightening of credit supply, in both banking and nonbank sector, due to the increasement of credit risk, combined to the surging spreads, increase strains on corporate financing. Moreover, high uncertainty about the further course of the pandemic had the effect to led to a significant collapse in asset values and deterioration in financing conditions. Given these conditions, there is a clear possibility that companies that which had run into liquidity problems, considering the increasing difficulties in the future to be able to take funding, could see these turn into solvency problems. All of this, has placed the financial system under strain.

This was the Context, where the ESRB had to move at the start of the Pandemic.

B. The ESRB role in coordinating the various Competent Authorities in Europe and the Strategies to ensure the stability of the financial conditions.

The situation in which the ESRB had to act, immediately seemed not easy. So, this Board in accordance with its mission, as first response to the crisis²⁴, started by *identifying and prioritizing systemic risks*²⁵, where it finds five priority area, to focusing on:

- 1- Implications for the financial system of guarantee schemes and other fiscal measures to protect the real economy,
- 2- market illiquidity and implications for asset managers and insurers,
- 3- impact of procyclical downgrades of bonds on markets and entities across the financial system,
- 4- system-wide restraints on dividend payments, share buybacks and other payouts,
- 5- liquidity risks arising from margin calls.

Furthermore, the ESRB, following Art. 3 (1) Reg. 1092/2010, it established in June 2020, ad hoc Working Group: "**Working Group on Financial Stability Implications of Covid-19 measures**", composed among others by the **Advisory Scientific Committee**, which was entrusted to start gathering and analyzing all the various information and data, to figure out the magnitude of the consequences of the Pandemic over the various

²¹ Financial stability implications of support measures to protect the real economy from the COVID-19 pandemic, pag 7

²² Financial stability implications of support measures to protect the real economy from the COVID-19 pandemic, pag 7

²³ COVID-19 pandemic: Financial stability implications and policy measures taken: <https://www.fsb.org/wp-content/uploads/P150420.pdf>

²⁴ Please view for more information ESRB Meeting 2nd April 2020

<https://www.esrb.europa.eu/news/pr/date/2020/html/esrb.pr200409~a26cc93c59.en.html>

²⁵ Reg. No 1092/2010 Art 3(2) Par. (B) <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32010R1092&from=EN>

sector of the economy majorly affected by the crisis, in particular: the private non-financial sector (*non-financial firms and households*), financial sector (*banks and other non-bank financial intermediaries*), and also was entrusted to facilitate the implementation of the ESRB Recommendations.

The aim of the ESRB, in the first part of the Covid-19 Pandemic, was to understand the deepness of the crisis, how the real economy and the financial sector as whole were affected by it, and what could be the possible consequence on the short and long run of the pandemic over the soundness of the financial (so banks), of non-financial businesses and over other sectors of the economy. Two things were clear though:

- First, that the responses to the coronavirus pandemic would benefit from a unified solution at the global level and that enhanced cross-institutional cooperation is key,
- Secondly, a timely and coordinated policy response is key, in particular to achieve important synergies between fiscal, monetary and regulatory policies.

After monitoring and analyzing the situation, from the research conduct by the **Steering Committee Workstream**, it was found that the COVID-19 shock affected mainly three sectors of the economy: private non-financial sector, financial sector and Public sector²⁶, although in a heterogeneous way.

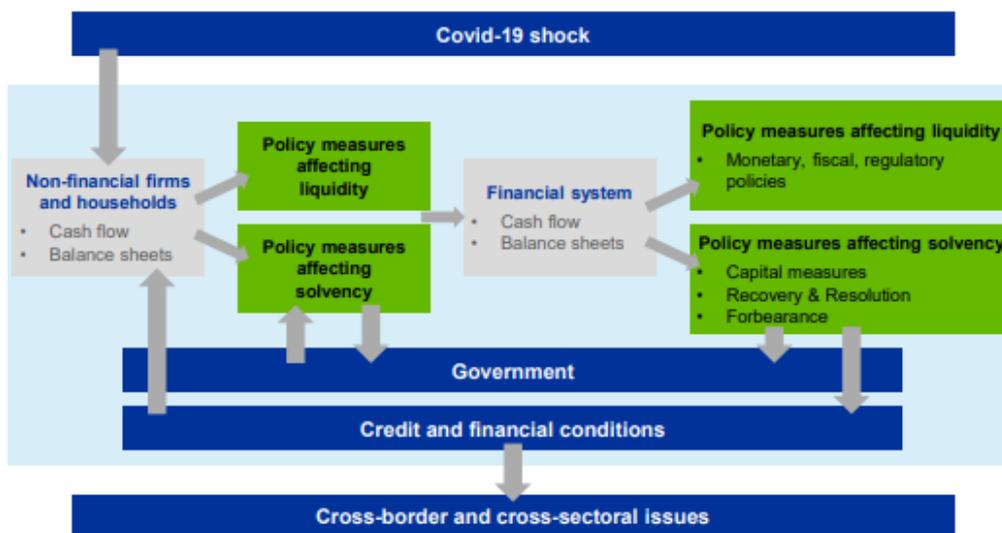
As a matter of fact, the degree to which the shock is transmitted through the economy, basically depends on these three different factors:

- 1- resilience in terms of vulnerabilities or financial absorption capacity, (*an important role here is played by the presence of a large enough liquidity buffer*),
- 2- shock exposure in terms of the magnitude of the shock hitting a particular sector,
- 3- policy measures and their effectiveness in terms of cushioning the shock and enhancing resilience.

Due to this weak economic outlook, the corporate bond sector saw a significant deterioration, also provoking a sharp fall in asset price and in a more general contest important liquidity tensions over the market and over the Financial System.

The ESRB's intention here, as coordinator, is to analyze, gather all the various information not only from the market, but also from the other European Agencies, in order to formulate a response, as recommendation or warning, against the crisis.

²⁶ Financial stability implications of support measures to protect the real economy from the COVID-19 pandemic, pag 5



(From this figure, we can appreciate the mechanism behind the transmission of the Covid-19-shock throughout the economy).

Source: ESRB Report 16 February 2021

After assessing the deepness of the crisis over various aspect of the economy, acknowledging the need for the financial institutions to maintain a robust level of own funds to mitigate systemic risk and contribute to economic recovery, the **ESRB's General Board** based on these findings, carried out by the **Working Group** and by the **Advisory Scientific Committee**, in light with the power granted by the Reg. 1092/2010, in particular following both article 3 and 16, through its **Advisory Technical Committee**, released a series of Recommendations, rather specific and focalize in nature.

After analyzing this information, the intent of the ESRB here, is to formulate recommendations, through its committees, to coordinate future actions.

Each of these were addressed mainly to European Agencies, like the ESMA or the EBA, while others were addressed to, in a broader view, all Members State. Each of these Recommendations highlighting how to behave and what measure to adopt to face the crisis and ease all the negative consequences.

- Recommended the ESMA to cooperate strictly with all the National competent Authority and to coordinate action focused on supervisory engagement with investment funds that have significant exposures to corporate debt and real estate assets. This was intended to assess the state of readiness of the various investment fund involved in corporate debt and real estate, the former particularly affected by the crisis, in case of potential future pressures, stress and decline of liquidity in the market or increased valuation uncertainty ²⁷.
- Recommended all the National Authorities entrusted, by the respective government, the macro-prudential supervision, to report regularly report and information to the ESRB itself and to assess and check the financial stability implications of COVID-19 related measures taken by their Member States to protect the real economy²⁸(*so the effect that such measures have on for instance on the real economy or the corporation's soundness*), as well as the design features of such measures (*like volume, type of support, conditions, beneficiaries, and so on*).

²⁷ RECOMMENDATION OF THE EUROPEAN SYSTEMIC RISK BOARD of 6 May 2020 on liquidity risks in investment funds (ESRB/2020/4)

https://www.esrb.europa.eu/pub/pdf/recommendations/esrb.recommendation200514_ESRB_on_liquidity_risks_in_investment_funds~4a3972a25d.en.pdf

²⁸ RECOMMENDATION OF THE EUROPEAN SYSTEMIC RISK BOARD of 27 May 2020

https://www.esrb.europa.eu/pub/pdf/recommendations/esrb.recommendation200608_on_monitoring_financial_implications_of_fiscal_support_measures_in_response_to_the_COVID-19_pandemic_3~c745d54b59.en.pdf

- Recommended to stop any activities or actions, at least until the 1 of January 2021, involving dividend distributions, buy-back ordinary shares, create an obligation to pay variable remuneration to a material risk taker²⁹. With this recommendation, the ESRB aims to reducing the quantity or quality of own funds at the EU group level and achieve a uniform approach restriction on payments across the EU and across different segments of the financial sector.
- Recommend Member State Competent authorities to take actions aimed at:
 - limiting cliff effects in relation to the demand for collateral, also including client clearing services and non-centrally cleared markets,
 - enhancing Central CounterParty (CCP) stress test scenarios for the assessment of future liquidity needs,
 - limiting liquidity constraints related to margin collection,
 - promoting international standards related to the mitigation of procyclicality in the provision of client, related to exchange traded and OTC derivatives and in securities financing transactions.³⁰
- Also strongly recommended and encouraged, in a broader view, a cooperation among NCAs, European agencies (like the EBA, EIOPA and ESMA) and international Bodies like the International Monetary Fund or the World Bank.

Moreover, the ESRB, according to the power given by Art. 3 Reg. 1092/2010, will continue monitoring closely not only the evolving situation of the pandemic, but also the effect that fiscal measure has on financial institutions' ability to contribute to economic recovery, reserving the right, the **General Board**, to amending the old recommendations or issuing new ones in case it deems necessary.

C. The ESRB's Recommendation for the future

Considering the great degree of uncertainty today and in the future, with the concrete risks of further worsening of health and economic condition, the ESRB's General Board, in light of the tasks under its remit, through the Working Group has identified a number of areas which require attention from policymakers³¹:

- **Avoid cliff effects:** to avoid such effect, we should balance potential extensions of moratoria schemes against spreading the economic effect over time.
- **Implement targeted fiscal measures:** fiscal measures should be applied in a more targeted way; they should also balance liquidity and solvency measures and promote policies that enhance growth. It also suggests granting solvency support to firms with a business model that is viable after the pandemic.

²⁹ RECOMMENDATION OF THE EUROPEAN SYSTEMIC RISK BOARD of 27 May 2020

https://www.esrb.europa.eu/pub/pdf/recommendations/esrb.recommendation200608_on_restriction_of_distributions_during_the_COVID-19_pandemic_2~f4cdad4ec1.en.pdf

³⁰ from more information on the topic, please look RECOMMENDATION OF THE EUROPEAN SYSTEMIC RISK BOARD of 25 May 2020 on liquidity risks arising from margin calls

https://www.esrb.europa.eu/pub/pdf/recommendations/esrb.recommendation200608_on_liquidity_risks_arising_from_margin_calls~41c70f16b2.en.pdf

³¹ For more information, please look:

https://www.esrb.europa.eu/pub/pdf/reports/esrb.reports210216_FSI_covid19~cf3d32ae66.en.pdf

- **Monitor debt sustainability:** Public guarantees on loans and moratoria tend to increase the indebtedness of borrowers, elevated debt might become unsustainable if borrowers' profitability and productivity can't keep up, and might give rise to surplus problems, with positive NPV project. Furthermore, high debt levels, also expose borrowers to credit supply shocks.
- **Prepare for an adverse scenario:** It's important for institutions that manage the restructuring and insolvency processes, don't reaching capacity constraints, and try to do everything to avoid value destruction. Tackling the problem of non-performing loans as early and decisively as possible is essential to ensure a strong and stable financial system to support growth.
- **Enhance transparency:** Timely and prudent recognition of credit risk increases the transparency of banks' balance sheets. It is important to ensure that banks are recognizing borrowers' long-term payment difficulties on their balance sheets without undue delays.
- **Coordinate policies:** to address solvency issues, it will require coordinated reactions from various institutions in many sectors, like insolvency legislation, labor and social policies, and competition policy. which need to be effective at both national and European level.

III. Conclusion

We have seen what were at the base of the need for the creation of a new European architecture for the supervision over the financial market, as a whole, we have seen also how the de Larosière group and its report lead to the creation of first the ESFS, then we also looked and explain the powers and the task which are entrusted in the figure of the ESRB, highlighting the power and the tasks under the remit of the latter to preserve the financial stability over all financial sectors, underlining also the fact that despite the ESRB importance it's entrusted with no binding power. We also analyze the role covered by it during the ongoing Pandemic, which in my opinion, which despite all the various externalities and negative consequences on the everyday life, it constitutes the first real test for the new European Framework, and for its new institutions, built after the 2008 financial crisis. As a matter of fact, we should also point out two main differences from the previous recession:

- Firstly, unlike before, the shocks are exogenous and affected all countries and sectors, not homogeneously, some sectors were more severely affected than others,
- Secondly, the EU financial system is more resilient now to systematic crisis, than before.

During the current sanitary crisis, the ESRB covered an important role in coordinating, through its recommendations, the actions of various Member States and European Agency, however a question arises spontaneously: *What would have happened, if in the current crisis the ESRB has been given more power? Would the result of the actions taken by the ESRB have been different?*

The ESRB during the pandemic has played, undoubtedly, a very important role in assuring the soundness and the stability of the financial sector, but nevertheless I think that, since the current crisis requires a collective response and at the European level each nation adopts actions which, although in line with other countries and with European standards, have a certain degree of difference and divergence, maybe if the ESRB was entrusted with more power or was modeled like the ESAs, maybe the various action taken by it could have been more efficient and quicker than currently and so therefore the results obtained would have been different, perhaps better.

To conclude, I believe that, for the way in which it was established and for the important role to which it was entrusted, the ESRB *should be entrusted with more power, in order to make it more efficient* not only in surveillance, but above all, *in preventing or minimizing systemic risks and in maintaining the Financial Stability*, giving it, perhaps, a structure similar to the three ESAs, in this way I think that possible future crises can be addressed, more effectively, in shorter times, and ultimately citizens, consumers, financial and non-financial companies and the financial stability itself would benefit from it.

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