Press release

21 October 2020

ESRB publishes EU Non-bank Financial Intermediation Risk Monitor 2020

The European Systemic Risk Board (ESRB) has today published the EU Non-bank Financial Intermediation Risk Monitor 2020 (NBFI Monitor). This is the fifth issue in an annual series that contributes to the monitoring of a part of the financial system that has grown in recent years and accounts for around 40% of the EU financial system.

This issue of the NBFI Monitor focuses on data up to end-2019, but also considers market developments at the onset of the coronavirus (COVID-19) pandemic in early 2020. The latter includes the use of liquidity management tools in EU investment funds, developments in money market funds and developments in corporate bond exchange-traded funds.

The NBFI Monitor also considers structural risks and vulnerabilities in the NBFI sector, as well as cyclical risks affecting the sector.

Cyclical risks identified for the NBFI sector include:

- a sharp contraction of economic activity in the EU and globally and an uncertain economic outlook;
- rising indebtedness, increased credit risk and an expected rise of rating downgrades;
- an increased share of negative yielding assets and interest rates that are expected to stay low for longer;
- subdued liquidity and increased volatility in some markets.

The key structural risks and vulnerabilities identified include:

- risk-taking, liquidity risk, pricing uncertainty and risks associated with leverage among some types of investment funds and other non-bank financial institutions;

European Systemic Risk Board
Directorate General Communications, Global Media Relations Division
Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany
Tel.: +49 69 1344 7455, email: media@esrb.europa.eu, website: www.esrb.europa.eu

- interconnectedness and the risk of contagion across sectors and within the non-bank financial sector, including domestic and cross-border linkages;
- activities-related risks – procyclicality, leverage, and liquidity risk – created through the use of derivatives and securities financing transactions.

Remaining data gaps and the need for improved risk metrics are also highlighted.

These risks and vulnerabilities are assessed using an entity-based monitoring framework which considers both investment funds and other financial institutions such as financial vehicle corporations, security and derivative dealers and financial corporations engaged in lending. The analysis is complemented by an activity-based assessment considering risks and vulnerabilities in securities financing transactions, derivatives and securitisations, which are used across entities and where risks can arise from the use and reuse of financial collateral.

For media queries, please contact William Lelieveldt, tel.: +49 69 1344 7316.

European Systemic Risk Board
Directorate General Communications, Global Media Relations Division
Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany
Tel.: +49 69 1344 7455, email: media@esrb.europa.eu, website: www.esrb.europa.eu