



ESRB

European Systemic Risk Board

European System of Financial Supervision

A system-wide approach to macroprudential policy

Keynote speech at the SUERF and BFF Conference

on

Banks and Non-Bank Financial Institutions: Competition
or Complementarity and Impact on Financial Stability



20/01/2025

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The need for a system-wide approach

A system-wide approach to macroprudential policy

November 2024

ESRB response to the European Commission's consultation assessing the adequacy of macroprudential policies for non-bank financial intermediation



See also:

[Speech by Christine Lagarde, Chair of the European Systemic Risk Board, at the Hearing of the Committee on Economic and Monetary Affairs of the European Parliament, 4 December 2024](#)

Available [here](#)

I Diversification of financing sources – benefits & risks

I Why it matters

The EU needs to mobilise private savings to help meet existential challenges

- To meet the objectives laid out in the Draghi report, a minimum annual additional investment of EUR 750 to 800 billion is needed.^(*)

This requires a diversified financial system that relies less on banks alone

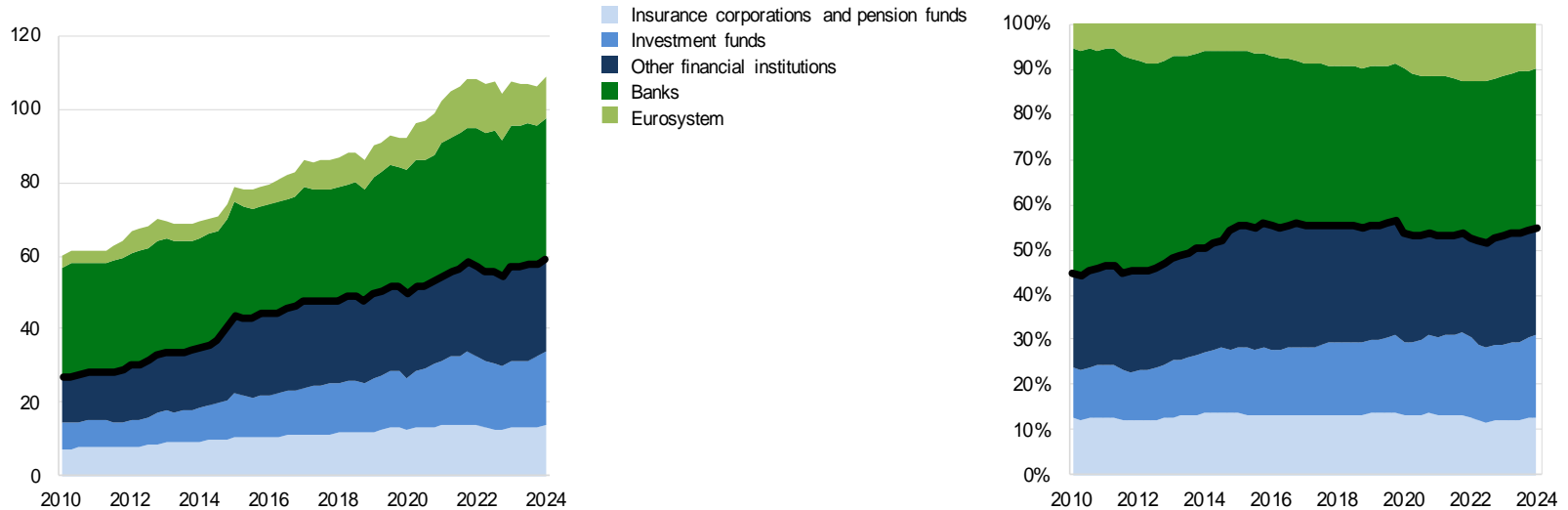
- A stock of up to €8 trillion could be redirected into long-term, market-based investments (an annual flow of around €350 billion), if EU households were to align their deposit-to-financial assets ratio to that of the US.^(#)

* Draghi, M. (2024), "[The future of European competitiveness: A competitiveness strategy for Europe](#)", September.

"Follow the money: channelling savings into investment and innovation in Europe", [Speech by Christine Lagarde, President of the ECB, at the 34th European Banking Congress: "Out of the Comfort Zone: Europe and the New World Order"](#), Frankfurt am Main, 22 November 2024.

I Growth of NBFIs is set to continue under CMU

EUR trillion (left-hand side) and percentages (right-hand side)



Note: Based on financial accounts data for the total financial assets of the financial sector of euro area plus non-euro area EU Member States. The European System of Central Banks (“Eurosystem”) is estimated based on BSI data for the Eurosystem and national central bank data for non-euro area EU central banks. Sources: ECB and ESRB Secretariat calculations.

I Diversification can support stability...

During times of stress, it can open a wider range of funding sources to make the economy less vulnerable to banking contractions.

- The global financial crisis (GFC) has shown that overreliance on banks can reduce access to finance during periods when the banking sector becomes impaired.
- In 2008, firms in the United States were able to continue to access credit via bond markets. This meant that when credit in the form of loans contracted, bond financing increased to make up most of the gap.

During normal times resilient NBFIs and market-based finance can act as complements to banks.

- By undertaking different activities from banks – or undertaking the same activities differently – NBFIs complete markets and support financial stability.

I ... but NBFIs have come into the spotlight

Trader blows €100m hole in Nasdaq's Nordic power market
 Loss raises questions over clearing-house controls on eve of Lehman anniversary

H2O Asset Management: illiquid love
 The €14bn question about a French fund manager's link to enigmatic financier Lars Windhorst

Archegos debacle reveals hidden risk of banks' lucrative swaps business
 Derivatives that blew up Hwang family office were growing source of revenue for Wall Street

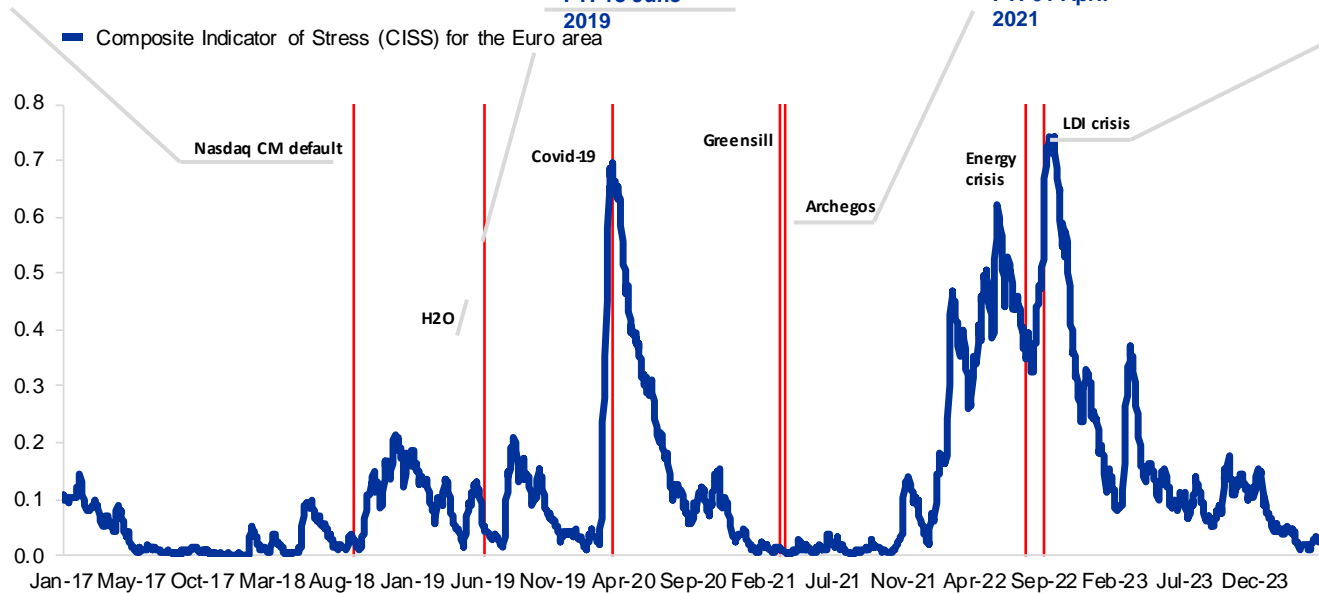
Pensions industry and consultants play blame game over LDI crisis
 Calls grow for regulation of UK's influential and concentrated investment advice sector

FT: 13 September 2018

FT: 18 June 2019

FT: 01 April 2021

FT: 29 December 2022

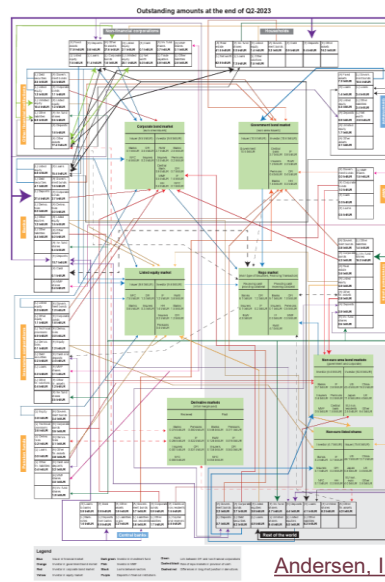
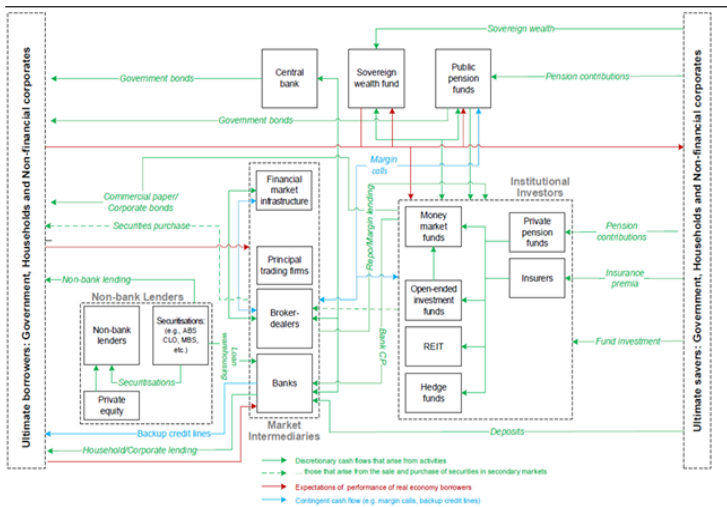


I A greater role of NBFIs can also pose risks

Interconnectedness and complexity can lead to opaqueness.

Risk migration and transformation can create new amplification channels.

Interconnectedness of NBF1



Andersen, I., and Sánchez Serrano, A., (2024). "A map of the euro area financial system"

Source: FSB (2020), "Holistic Review of the March Market Turmoil"

II From entities to activities – a system-wide approach



Activities are undertaken by various entities

	Activities	Banks	Insurers	Funds	CCPs	...
Transact	Payment	✓				
	Clearing	✓	✓*	✓*	✓	
	Custody	✓				
Save	Deposit taking	✓				
	Asset management	✓	✓	✓		
Borrow	Lending	✓	✓	✓		
	Purchase of debt securities	✓	✓	✓	✓**	
Manage risk	Insurance		✓			
	Derivatives	✓	✓	✓	✓	

II The focus has been on entities (banks, NBFIs)

- A focus on 'columns' ...

		CRR/CRD	Solvency II	AIFMD/UCITSD	EMIR	
	Activities	Banks	Insurers	Funds	CCPs	...
Transact	Payment	✓				
	Clearing	✓	✓*	✓*	✓	
	Custody	✓				
Save	Deposit taking	✓				
	Asset management	✓	✓	✓		
Borrow	Lending	✓	✓	✓		
	Purchase of debt securities	✓	✓	✓	✓**	
Manage risk	Insurance		✓			
	Derivatives	✓	✓	✓	✓	

II Activities also matter

- ..should be complemented by also focussing on activities

	Activities	Banks	Insurers	Funds	CCPs	...
Transact	Payment	✓				
	Clearing	✓	✓*	✓*	✓	
	Custody	✓				
Save	Deposit taking	✓				
	Asset management	✓	✓	✓		
Borrow	Lending	✓	✓	✓		
	Purchase of debt securities	✓	✓	✓	✓**	
Manage risk	Insurance		✓			
	Derivatives	✓	✓	✓	✓	

Implications for regulation

The principle

“Same activity,



same risk



same regulation”

The practice

- Regulates the entities performing the activity. Not identically but consistently and commensurately.
 - If the same activity does not result in the same risk for different entities because of differences in business models.
 - Example: different liquidity requirements for banks and insurers in CRD/CRR and Solvency II.
- Directly regulates (aspects of) an activity ‘independent’ of the entity and ‘identical’
 - If the risk being addressed is independent of the entity performing the activity.
 - Examples: market regulations

III A system-wide approach – examples

The ESRB considered three activities

- **Asset management:** important work in EU on investment funds, but there are many different types of entities that manage assets (e.g. family offices, SWFs...).
 - c50% of AUM of asset managers is outside investment funds
- **Lending:** key for the economy and moving beyond the banking sector (e.g. private credit markets, loan origination funds...).
 - c33% of total credit to NFCs & households is from NBFIs
- **Clearing:** resilience of market functioning is key and clearing might help liquidity during periods of stress (e.g. equity vs government bond markets during Covid).
 - Most of EU government bond cash transactions are not cleared.

Goldman to fund meagre payouts to banks hammered by Archegos collapse FT - FEBRUARY 1 2023
Lenders that lost billions will get back as little as 5 cents on the dollar from restructuring

European banks → ADD TO MY FT
UBS faces hit of hundreds of millions of dollars over Credit Suisse's Archegos failings
Findings over failings at Swiss bank related to dealings with family office set to be published soon by global regulators FT - JUNE 19 2023

Top ECB official sounds alarm on rising risks from shadow banking FT - JULY 10 2024
Elizabeth McCaul says rapid growth of lightly-regulated lenders could translate into 'systemic' threat

UBS chair spars with private equity chiefs over risks of 'shadow' banking FT - NOVEMBER 7 2023

REUTERS
NY Fed official tells bond market to get ready for central clearing RT - JUNE 5 2024

SEC votes to expand central clearing in overhaul of \$26tn Treasury market FT - DECEMBER 13 2023

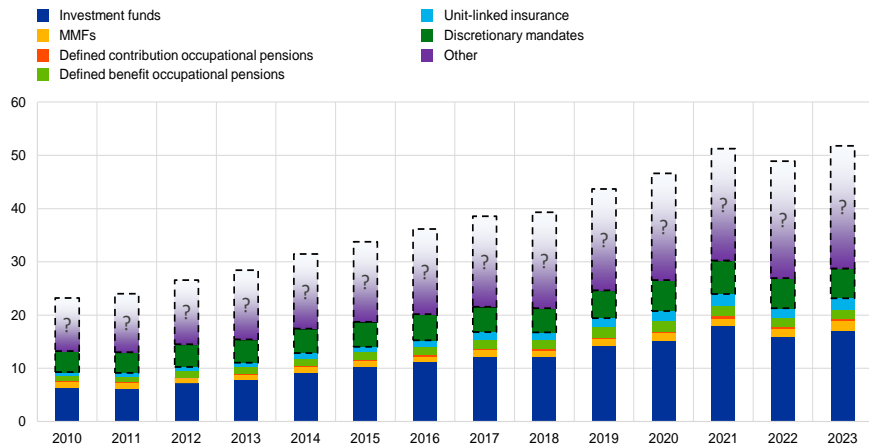
III Taking a system-wide approach to asset management

III Role of asset management

- Central to CMU: Supports long-term funding, market participation, cross-border investment, resilience
- Diverse: Performed in various forms by different types of entities, business models and risk profiles; highly individualised contractual terms
- Multi-layered and intertwined: Funds, asset managers, ICs/PFs; interlinkages with banking sector; long intermediation chains and high complexity

III Growing importance

Growing importance of asset management activities (EUR trillions)



Note: Data refers to total assets. The scope is approximated to EU level. "Other" line item includes family offices, sovereign wealth funds, pension funds other than occupational, discretionary mandates managed by entities other than UCITS management companies and AIF managers.

Source: ECB (IVF and BSI), EIOPA, EFAMA, CSSF, ESRB calculations.

Expectations of consolidation in the EU

Consolidation among European fund managers

Groups	Date	Details
UBS/Credit Suisse	March 2023	The state-sponsored rescue of Credit Suisse by its Zurich rival created an asset management business with \$5.7tn under management
Axa/BNP Paribas	Aug 2024	Insurer Axa announces exclusive talks to sell its €800bn asset management business to the French bank for €5.1bn. Combined business will have €1.5tn under management
Axa/Amundi/Natixis	Various times	Talks about combining Axa Investment Managers with either Natixis or Amundi failed to reach a conclusion
Natixis/Generali	Ongoing	Groupe BPCE, parent company of Natixis, is in talks with Italian insurer Generali to create a new asset management joint venture
Banco BPM Spa/Anima Holding	Dec 2024	Italian bank has bid to take control of asset manager Anima, where it is already the largest shareholder
Amundi/Allianz	2023/24	Europe's largest pure-play asset manager had been in talks with German insurer Allianz about acquiring its fund management business. The discussions were paused earlier this month
DWS	Various times	Has talked to both Allianz and Dutch insurer NN Group about acquisitions. Lost out to Goldman Sachs for NN Group's investment management unit in 2021

Source: [Financial Times](#), "The relentless advance of American asset managers in Europe", 17 December 2024

III Vulnerabilities in asset management

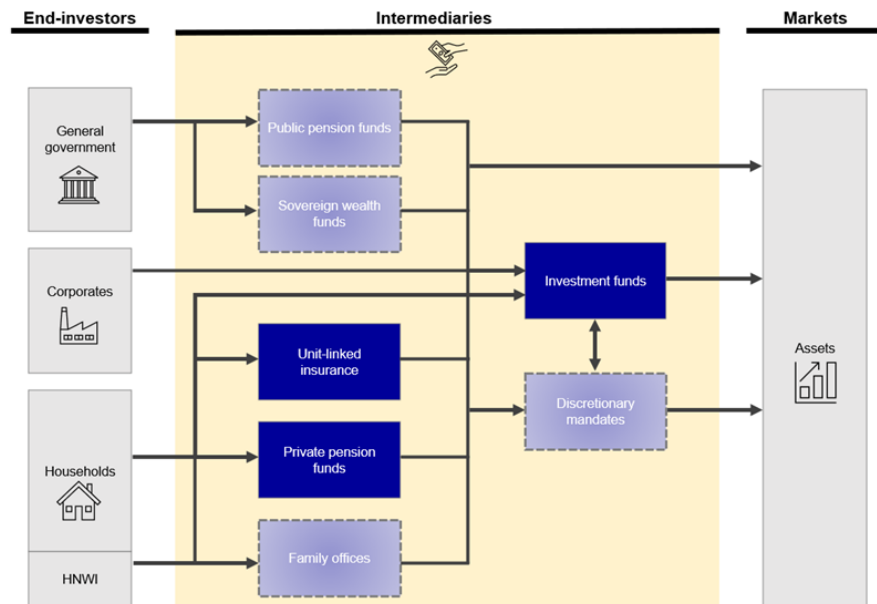
Risks in AM not entity-specific

- Liquidity mismatch: Relevant for open-ended funds; strategy switches in ICs/PFs to meet liabilities
- Leverage, concentration, misaligned incentives: Recurring across all forms of AM

Need to understand risks beyond funds

- Funds: Growing volumes; collective nature; interplay between liquidity mismatch and other vulnerabilities
- Beyond funds: Need for more comprehensive consideration of AM activity and related risks

Interlinkages within the asset management sector



Note: The figure is stylised and not to scale. Boxes in light blue with dashed frames denote sectors where EU-wide regulatory and/or supervisory data are not available. Investment funds include MMFs. Source: ESRB.

III Policy considerations for asset management (1/2)

Increased transparency

- Demystifying known unknowns: Better understanding of various forms of AM from a financial stability perspective; consider introducing reporting requirements beyond current framework

Common minimum standards for third-party AM

- Macroprudential lens: Designed with a financial stability perspective to avoid regulatory and supervisory loopholes
- Coverage: Portfolio and risk management, governance, reporting and disclosure

Consistency in the policy toolkit

- Lessons from recent policy actions: Addressing same risks originating from various parts of the AM might not be feasible with the current tools
- Adapting AIFMD Article 25: Address leverage-related risks in AM beyond AIFs

III Policy considerations for asset management (2/2)

Reflecting diversity...

- Evidence-based approach: Regulation after a thorough risk assessment, considering variety of business models, risk absorption capacities and systemic footprint
- Minimum standards, not standardisation: One-size-fits-all not warranted, regulatory copy-pasting would create inefficiencies and stifle innovation
- Entity-based overlay: Ensure higher standards for entities with more material contribution to systemic risk

... and the global nature of some asset managers

- Non-EU players: Active engagement at FSB level to enhance transparency and enquire risks of large AM players typically domiciled outside the EU, e.g. SWFs



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