

EU financial regulators highlight risks of a no-deal Brexit and search for yield

□The European Union's (EU) banking, insurance, pensions and securities sectors continue to face a range of risks, the latest report on "[Risks and Vulnerabilities in the EU Financial System](#)" published today by the Joint Committee of the European Supervisory Authorities (ESAs) shows.

The 2019 Autumn ESAs' report highlights the following risks as potential sources of instability:

- Uncertainties around the terms of the United Kingdom's withdrawal from the European Union
- Persistently low interest rates, which combined with flattening yield curves, put pressure on the profitability and returns of financial institutions, incentivise search-for-yield strategies and increase valuation risks
- Transition to a more sustainable economy and environmental, social and governance (ESG) related risks, leading to possible challenges to the viability of business models with high exposures to climate sensitive sectors.

In light of the ongoing uncertainties, especially those around Brexit, supervisory vigilance and cooperation across all sectors remains key. Therefore, the ESAs call for the following policy actions by European and national competent authorities (NCAs) as well as financial institutions:

- **Contingency planning:** Financial institutions and supervisors should continue their work on contingency planning and assurance of business continuity in the case of a no-deal Brexit. Considering the variety of measures undertaken by the ESAs and national supervisory authorities and other competent authorities, the EU financial sector should be well informed and prepared to manage risks from a micro-perspective. The ESA's will also continue to closely monitor ongoing political and market developments and consider the need for further communications on that basis.
- **"Low-for-long" scenario:** Supervisors and financial institutions should continue taking into account a "low-for-long" interest rate scenario and associated risks. Low interest rates are an important driver of low bank profitability and remain the main risk for the insurance and pension fund sectors. They contribute to the further build-up of valuation risks in securities markets as well as to a move into less liquid and more leveraged investments through search-for-yield strategies. On the investment fund side, a convergent application of the rules on liquidity management and (for UCITS) eligible assets as well as a consistent use

of stress testing will be important supervisory tools.

- **Bank profitability:** There is a need to further address unprofitable banks and their business models in order to increase the resilience of institutions to a more challenging economic environment. Further investments into financial technologies and exploring opportunities for bank sector consolidation are among responses to low profitability. Transparency and the consistent application of common prudential requirements and supervisory rules across jurisdictions are preconditions, which could contribute to the use of opportunities cross border consolidation, may offer.
- **Leveraged lending market:** Risks related to the leveraged loan market and Collateralized Loan Obligations (CLOs) in the financial sector should be further explored and identified. There is a lack of clarity about the total volume of leveraged loans outstanding and about the ultimate holders of risks of many CLO tranches. Supervisors have raised concerns about a possible underpricing of risks.
- **Sustainable finance and ESG risks:** Supervisory authorities and financial institutions should continue their work on identifying exposures to climate related risks and facilitate access of investors to sustainable assets. Scenario analysis and stress testing are important tools that can be implemented by supervisors with a goal to incorporate sustainability considerations into risk assessment. Financial institutions should incorporate climate risk and other ESG factors into their risk management framework and should play a stewardship role by taking into account the impact of their activities on ESG factors. Going forward, the ESAs should take a proactive stance in fulfilling mandates on sustainable finance, including on how ESG considerations can be incorporated into the regulatory and supervisory framework of EU financial institutions.

Background

The Joint Committee is the forum for 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 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).

[July 2019 compared with June 2019 – Industrial production down by 0.4% in euro area – Down by 0.1% in EU28](#)

In July 2019 compared with June 2019, seasonally adjusted industrial production fell by 0.4% in the **euro area** (EA19) and by 0.1% in the **EU28**, according to estimates from Eurostat, **the statistical office of the European Union**. In June 2019, industrial production fell by 1.4% in both the **euro area** and **EU28**.

[Full text available on EUROSTAT website](#)

[Eurostat regional yearbook 2019 – Regional diversity in the EU – how does your region compare?](#)

Is it easier to find a job in your region than in other regions of the **European Union** (EU)? Is the median age of the population higher or lower than elsewhere in the EU? What are the main business activities of your region? How much money is invested in research and innovation? Is your region richer than others? Which region has the highest internet use?

[Full text available on EUROSTAT website](#)

[Fairness in the Food Supply Chain: Commission welcomes Member States' support for greater price transparency](#)

Following today's exchange with Member States, the Commission will now adopt the measures to introduce greater transparency through improved price reporting along the food supply chain.

After [banning unfair trading practices](#) and [improving the conditions for producer cooperation](#), the Commission presented in May the third element to

improve fairness in the food supply chain: stepping up the collection of prices of agri-food products at different stages along the supply chain to see how prices are determined.

Greater transparency will allow different actors to make more informed choices and improve the understanding of price formation and the development of trends along the food chain. It can also support better business decisions, including better management of risk, and improve trust.

Agriculture and rural development Commissioner Phil **Hogan** said: *“Increasing market transparency is about providing more information, on more products, more often. By doing so, we will give greater balance to the chain and ensure more efficient decision-making. Increasing transparency is also about fairness: we are allowing equal access to price information which will bring greater clarity on how the food supply chain functions. Supplemented by the recently adopted directive banning unfair trading practices, as well as to the 2017 improvements to producer organisation legislation, these rules will strengthen the role of farmers in the food supply chain, a key objective for the Commission.”*

Following today’s discussion in the Committee of Common Market Organisation, the measures will be adopted by the Commission in the coming weeks and will apply from 1 January 2021.

While a significant amount of information is already available regarding agricultural markets (including production and consumer prices, volumes of production and trade, etc.), there is little information available on markets that operate between farmers and consumers such as food processing or retailing. This creates an asymmetry of information between farmers and other actors of the food supply chain and can put farmers at a significant disadvantage when doing business with others.

The measures agreed on today will apply to the meat, dairy, wine, cereals, oilseeds and protein crops, fruit and vegetables, olive oil and sugar sectors. The collection of data will rely on systems and procedures already in place, used by operators and Member States to report market information to the Commission. Each Member State will be responsible for the collection of price and market data. Representative prices will be reported in order to achieve cost-effectiveness and to limit the administrative burden.

Member States will submit the data to the Commission, who will then make the information available on its [agri-food data portal](#) and [EU market observatories](#).

Background

Since the beginning of its mandate in 2014, the current Commission has been working on a fairer food supply chain. In 2016, Commissioner Hogan set up the [Agricultural Markets Task Force](#) with the aim of proposing recommendations to strengthen the position of farmers in the food chain.

The recommendations presented in November 2016 covered three regulatory

aspects: [unfair trading practices](#), [producer organisations](#) and [market transparency](#). In 2017, the Commission launched an [inception impact assessment](#) and a [public consultation](#) centred on these three elements.

An EU-wide opinion poll published in February 2018 also showed that a great majority of respondents (88%) considers that strengthening farmers' role in the food supply chain is important. Previously, 96% of the respondents to the 2017 public consultation on the modernisation of the CAP agreed with the proposition that improving farmers' position in the value chain should be an objective of the EU's Common Agricultural Policy.

For More Information

[Fairness in the food supply chain: Commission proposes to increase price transparency](#)

[Agri-food supply chain](#)

[ESMA publishes responses to its Call for evidence on certain investor protection topics](#)

11 September 2019

MiFID – Investor Protection

ESMA publishes responses to its Call for evidence on impact of the inducements and costs and charges disclosure requirements under MiFID II.

To view the responses, please click the button below.

[READ RESPONSES](#)