# EU financial regulators assess risks to the financial sector after the outbreak of COVID-19 and call for enhanced cooperation

**The three European Supervisory Authorities (EBA, EIOPA and ESMA – ESAs) have issued their first joint risk assessment Report of the financial sector since the outbreak of the COVID-19 pandemic. The Report highlights how the pandemic has led to further amplified profitability concerns across the board and heightened liquidity challenges in segments of the investment fund sector. It particularly points to economic and market uncertainty as a key  challenge going forward.**

The impact of the crisis on EU banks' asset quality is a key concern as significant uncertainty about the timing and size of a recovery persists. The ESAs see a risk of decoupling of financial market performance from the underlying economic activity, and , a prolonged lower for longer interest rate environment which is expected to weigh on the profitability and solvency of financial institutions, as well as contributing to the build-up of valuation risks.

Directly following the COVID-19 outbreak in Europe, the ESAs' actions provided for regulatory flexibility, fostered operational resilience, and highlighed the importance of consumer protection. In light of ongoing uncertainties on the recovery from the COVID-19 pandemic, regulatory and supervisory cooperation between the ESAs, the European Systemic Risk Board (ESRB) and the European Commission remains key. In particular, the ESAs highlighted the need to implement the following policy actions:

- **monitor risks and perform stress testing**: risks to valuation, liquidity, credit and solvency have increased across financial sectors. The use and adequacy of liquidity management tools in the investment fund sector should be continuously monitored;
- **foster flexibility where and when needed**: supervisors and banks are encouraged to make use of the flexibility in the existing regulatory framework, including use of capital and liquidity buffers to absorb losses;
- **support to the real economy**: capital relief should be used in support of continued lending to the real economy in the downturn;
- stay prepared: EU financial institutions need to be well-prepared for any disruptions they and their clients may face at the end of the UK's transition period of leaving the EU;
- **supervise digital transformation**: it is key for financial institutions and their service providers to carefully manage their ICT and security risks, including when outsourcing ICT activities.

Read the report