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

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.

Background

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 ESRB.

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 ESAs.