

Comments

Targeted consultation assessing the adequacy of macroprudential policies for non-bank financial intermediation (NBFI)

German Lobby Register No R001459
EU Transparency Register No 52646912360-95

Contact:
Dr. Thomas Ziesenitz
Telefon: +49 30 20225-5384
Telefax: +49 30 20225-5325
E-mail: thomas.ziesenitz@dsgv.de

Berlin, November 22, 2024

The **German Banking Industry Committee** is the joint committee operated by the central associations of the German banking industry. These associations are the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR), for the cooperative banks, the Bundesverband deutscher Banken (BdB), for the private commercial banks, the Bundesverband Öffentlicher Banken Deutschlands (VÖB), for the public-sector banks, the Deutscher Sparkassen- und Giroverband (DSGV), for the savings banks finance group, and the Verband deutscher Pfandbriefbanken (vdp), for the Pfandbrief banks.

Coordinator:
German Savings Banks Association
Charlottenstraße 47 | 10117 Berlin | Germany
Telephone: +49 30 20225-0
Telefax: +49 30 20225-250
www.die-deutsche-kreditwirtschaft.de

A. General remarks

Under Article 513 of the Capital Requirements Regulation (CRR), the European legislator has stipulated that the European Commission shall periodically assess, after consulting the ESRB and the EBA, whether the macroprudential provisions in the banking package are sufficient to mitigate systemic risks in specific economic sectors, regions, and Member States. The European Commission is tasked with evaluating how the macroprudential framework should be structured to address new systemically relevant risks arising from credit institutions' exposures to non-bank financial intermediaries (NBFIs).

Additionally, the European Commission's DG FISMA has launched a targeted consultation to assess the adequacy of macroprudential measures for NBFIs. We welcome the opportunity for the DK to submit its views to DG FISMA in the context of this targeted consultation. Should the European Commission decide, based on this consultation, to propose new legislation, we ask that our considerations on shaping the macroprudential framework be taken into account.

We understand that in the wake of the 2008-2009 global financial crisis, macroprudential supervision of the financial sector became a critical focus, aiming to oversee the financial system as a whole, avert risks, and promote financial stability. Some financial institutions were exposed to risky assets and faced pressure due to interconnected capital markets. In our view, banks in the euro area are now significantly more resilient. According to the 2024 Financial Stability Review of the European Central Bank (ECB), the banking system in the euro area is well-positioned to bear risks from financial activities, thanks to strong capital and liquidity positions. We note that supervisory regulations for the banking sector have been extensively strengthened since the financial crisis. Implementing these regulatory requirements will continue to challenge the banking sector for years. While the macroprudential framework for the banking sector, gradually introduced by the EU since 2014, has generally fostered financial stability, we advocate simplifying the framework by reorganizing the system of capital buffers. The number of capital buffers should be significantly reduced.¹ In doing so, it is crucial to uphold the principles of capital neutrality and standardization. Additionally, capital buffers should be deployable under more flexible procedural principles, and decisions regarding their activation should be made more transparently.

As a result of the extensive regulation of the banking sector, significant volumes of financial assets have shifted to the less strictly regulated NBFIs sector. According to EU Commission data, the total financial assets of NBFIs amounted to approximately EUR 42.9 trillion in 2023. This means the NBFIs sector is already significantly larger than the banking sector, whose assets amount to approximately EUR 38.0 trillion. While we recognize that NBFIs, like the banking sector, play a vital role in meeting the capital needs of the real economy, particularly in addressing the challenges of sustainable transformation, this requires a level playing field. The principle of "same business, same risk, same rules" must apply, ensuring competitive equality for similar financial market activities. It is also essential for lawmakers to balance the overall capital requirements for both sectors proportionately while reducing bureaucratic burdens to an appropriate level. We therefore advocate that the macroprudential framework for the banking and NBFIs sectors be reviewed and optimized for efficiency as part of the European legislator's broader regulatory review.

¹ Cf. German Banking Industry Committee, Comments – Targeted Consultation on improving the EU's macroprudential framework for the banking sector, Berlin, 17 March 2022.

We agree with DG FISMA that the interaction between the banking and NBFI sectors can generate synergies and that risk sharing can have a positive impact on financial stability. However, this interaction must not lead to a situation where financial activities of the growing NBFI sector are guaranteed by credit institutions, resulting in further regulatory tightening for banks. Similarly, oversight of the NBFI sector must not come at the expense of credit institutions. Banks are already subject to extensive regulatory requirements with respect to the shadow banking sector as defined under the CRR. For instance, they must monitor, manage, and limit risks from lending to shadow banking entities as defined under the CRR as part of their internal risk management processes. Additionally, institutions forming a group must report their ten largest exposures to “shadow banks” under the large exposures regime to supervisory authorities. Starting 1 January 2025, all institutions will also be required to report and disclose, if necessary, their aggregate exposures to shadow banking entities as defined under the CRR.

With this context in mind, we will address selected issues from the targeted consultation that focus on the interaction between the banking and non-banking sectors.

B. Comments on Selected Aspects

- 2.) What are the most significant risks for credit institutions stemming from their exposures to NBFIs that you are currently observing? Please provide concrete examples.

As both the banking and the NBFI sectors are globally interconnected, the dominant geopolitical risks—such as Russia's war of aggression on Ukraine, ongoing conflicts in the Middle East, and their negative impacts on the real economy and financial sector—also affect credit institutions. Similarly, the ongoing tensions between China and Taiwan, as well as the property crisis in China, have implications for a multilateral global economy. We regularly factor in the potential for escalation when interacting with our customers. However, the uncertainties regarding economic developments linked to these geopolitical conflicts remain high, as reflected in financial markets.

Separately from these current geopolitical developments, climate risks and their potential impact on the asset positions of banks and non-banks must also be considered. European and national banking supervisory authorities have already set extensive expectations for the banking industry to manage the climate and environmental risks inherent in their credit exposures effectively. Regulatory requirements are designed to identify and manage climate-related and environmental risks at the micro level, particularly where they are material to various primary risk categories in the credit business.

Additionally, we are acutely aware of the high potential for damage posed by cyberattacks to the companies involved—whether they are banks' customers, financing partners, or the banks themselves.

These risks are already adequately addressed through microprudential regulations. Therefore, no further macroprudential regulations are required in this area.

- 52.) Do you have concrete examples of links between banks and NBFIs, or between Different NBFIs sectors that could pose a risk to the financial system?

The close links between the banking and non-banking sectors are reflected in the fact that credit institutions obtain a significant portion of their refinancing from the non-banking sector. The ECB estimates that around 20% of European banks' capital is held by NBFIs. The importance of NBFIs varies depending on the banks' business model. With the ECB's decreasing willingness to provide financing, refinancing via the non-banking sector has gained importance in recent years.

Insurance companies and investment funds, in particular, hold a substantial proportion of long-term bonds issued by banks. Other financial institutions or investment funds provide short-term secured repo financing in the repo markets or offer money market funds. Given that NBFIs hold financial instruments across various asset classes and issue instruments of different maturities, there is adequate substitutability. This ensures that potential financing outflows from NBFIs remain a manageable risk for banks. Furthermore, banks use other financing channels to diversify their refinancing needs, mitigating dependency risks.

- 53.) What are the benefits and costs of a regular EU system-wide stress test across NBFIs and banking sectors? Are current reporting and data sharing arrangements sufficient to perform this task? Would it be possible to combine available NBFIs data with banking data? If so, how?

The banking sector is already subject to extensive supervisory reporting requirements. Additionally, supervisory stress tests are conducted, covering a range of stress test scenarios. Moreover, investors—particularly those focused on capital market-oriented banks—are continuously informed about these institutions' business and risk situations through disclosure obligations. We firmly oppose the introduction of additional data exchange formats between banks and the non-banking sector. In our view, the minimal potential insights gained would not justify the disproportionate bureaucratic burden such requirements would impose on both banks and NBFIs.

- 54.) Is there a need for arrangements between NBFIs supervisors and bank supervisors to ensure timely and comprehensive sharing of data for the conduct of an EU-wide financial system stress tests? Please elaborate.

As already stated in our response to question 53, we reject the proposal for a Europe-wide stress test for the banking and non-banking sectors. In our view, the reporting system and disclosure requirements for the banking sector are sufficiently developed.

Additionally, the ESRB provides regular insights through its annual reports, such as the EU Non-bank Financial Intermediation Risk Monitor. In our opinion, these reports already adequately address the information needs of both European and national supervisory authorities as well as the public.

- 55.) What governance principles already laid out in existing system-wide exercises in the EU, such as the one-off Fit-for-55 climate risk scenario analysis or the CCP stress tests conducted by ESMA, could be adopted in such system-wide stress test scenario?

We do not consider the application of the climate stress concept to the NBFI stress test to be constructive. We are concerned that data collection could only be carried out via the banks, which we firmly reject.

- 56.) [To NBFIs and banks] In your risk management practices, do you run stress tests at group level, and do you monitor the level of interconnectedness with (other) NBFIs (within and beyond your own sector; e.g. portfolio overlaps)?

Risk management is one of the core tasks of banks. Relationships with the NBFI sector, like other risks, are regularly monitored, thoroughly analysed, and limited. These can be counted as credit and liquidity risks in the NBFI portfolio. The internal procedures for identifying and managing the concentration risk arising from exposures to NBFI are outlined in the EBA Guidelines on limits to exposures to shadow banking entities (EBA/GL/2015/20).

Additionally, banks use internal liquidity tests to manage liquidity risks. As part of the LCR stress test, the connections to NBFI are also stressed, and various scenarios—such as an economic downturn or an external shock like the coronavirus pandemic—are analysed for their impact on liquidity. Liquidity stress tests are conducted at both group and individual institution levels.