



European Commission, Directorate-General for Financial Stability, Financial  
Services and Capital Markets Union  
1049 Brussels, Belgium

## Response to European Commission consultation on assessing the adequacy of macroprudential policies for non-bank financial intermediaries (NBFI)

6 November 2024

Danmarks Nationalbank welcomes the European Commission's consultation on the macroprudential framework for non-bank financial intermediaries (NBFI). The consultation is timely, and we support the work to further adjusting the EU's macroprudential framework for NBFIs, taking into account administrative burdens and competitiveness. In our consultation response, we have addressed the questions we consider of particular relevance for us, including financial stability, and market structures and financial intermediaries in the Danish NBFI sector and their interconnectedness with the wider European markets. Below we outline our overall position and suggestions for strengthening the macroprudential framework for NBFIs.

The NBFI sector in the EU is large and has grown in recent years. A large NBFI sector can contribute to more diversified sources of financing making the financial system more robust and thereby supporting financial stability. However, the NBFI sector in the EU, now accounting for about half of the financial system, can also be a source of systemic risks and amplify shocks. We agree with the Commission that key vulnerabilities and systemic risks related to NBFIs in the EU are related to unmitigated liquidity mismatches, excessive leverage and interconnectedness.

In recent years, both internationally and within the EU, there have been episodes of significant financial turmoil caused by entities within the NBFI sector, e.g. the dash-for-cash in March 2020, the sudden surge in energy prices and margin calls for NBFIs and banks in 2022 and the UK Gilt crisis in 2022. These recent episodes each provide insights and lessons learned and they can help guide future policy in this area. However, we must be attentive to the circumstance that NBFIs vulnerabilities and risks could materialize differently in the future than in the past.

In Denmark, the NBFI sector is of substantial size and is an important part of the financial system, comprising more than half of the financial system's assets. It comprises, in particular, a large pension and insurance sector (about 190 per cent of GDP) as well as investment funds (about 100 per cent of GDP). Furthermore, the NBFI sector plays a major role in the Danish mortgage bond market as a large investor. We have not currently identified

systemic risks within this sector in Denmark, but do note, that Denmark has observed systemic risks on the financial markets stemming from the NBFIs sector related to interconnectedness, market dynamics and asset sales in the past. Furthermore, we acknowledge the significant spill-over risks between EU Member States and third-country developments. This requires, among others, efficient identification, mitigation and management of systemic risks.

In our view, NBFIs are responsible for their own, individual resilience. This includes the responsibility for sound and robust risk management tailored to their activities, business models and investors, for example liquidity risk related to margin calls on derivatives. The responsibility for systemic resilience lies with the relevant authorities, however, which requires an effective macroprudential framework.

### **Interaction with the EU's Capital Markets Union**

The renewed ambition of Member States to support savings and investments and develop and integrate their financial markets should be supported by effective macroprudential frameworks for NBFIs. The macroprudential framework should be timely developed and be in place as the NBFIs sector become an even more significant part of the EU financial system, so that potential systemic risks can be addressed effectively.

In recent years, the EU has significantly strengthened the regulatory framework for credit institutions, including a developed macroprudential framework. This could induce financial activities, such as lending, to migrate to the NBFIs sector. Adjusting regulation of the NBFIs sector is important to address the risk of regulatory arbitrage. Otherwise, there may be a need for further strengthening the regulation of credit institutions to address the risks that NBFIs impose on them, either directly or indirectly through their interconnectedness.

### **Cooperation between national and EU authorities and internationally**

Given the cross-border nature of NBFIs activities, it is important to strengthen cooperation across the EU on macroprudential policies and supervision of NBFIs. The model of cooperation between national and EU authorities could generally depend on the geographical reach and systemic importance of activities and entities.

Generally, for some types of NBFIs activities and entities, national supervision is most well suited, while for other actors such as systemic actors with cross-border activities supervisory competences to an EU authority could be most effective, following clear assessment and criteria.

Coordination between authorities should be flexible and avoid undue complexity, since for example NBFIs investment activities can change quickly, especially under stressed market conditions.

Adjusting the EU's macroprudential framework for NBFIs should build on work in international fora, including the Financial Stability Board (FSB), with due regard to European conditions and financial stability risks. We take note that the FSB also sees vulnerabilities and risks related to NBFIs, including excessive leverage, liquidity risks and cross-border spillovers.

The NBFIs sector is global and inherently cross-border, necessitating global cooperation among macroprudential authorities.

## **Proportionality and administrative burdens**

In our view, it is important that macroprudential measures are proportional and take into account competitiveness, including the administrative burdens on firms and authorities, and are based on impact assessments. This will help guide decisions and agree on balanced solutions.

In that regard, it is important to take into account experiences with recently adopted EU regulation related to NBFIs, including the revised AIFM/UCITS Directives and Solvency II Directive going some way in introducing a macroprudential perspective.

A macroprudential framework for NBFIs is a new development. It will benefit from a stepwise approach taking into account experiences with existing measures and new data becoming available.

It is important that a macroprudential regulation and system-wide perspective adds value and interacts consistently and efficiently with the regulation of individual entities, i.e. microprudential regulation. This should be given particular focus in impact assessments.

## **Macroprudential approach to NBFIs**

In our view, in addressing systemic risks within the NBFIs sector, authorities need to adopt a system-wide and risk-based approach. There should be a focus on the financial system as a whole, including interconnections between banks and NBFIs, as well as cross-border activities. In that regard, awareness should be made that important cross-border activities are within the EU, but also with third countries as stated above.

We do not see a need for a large revision of current legislation for NBFIs. Rather, a stepwise and targeted approach to adjusting the existing macroprudential regulation could be pursued.

In order to avoid costly disruptions in the NBFIs sector and markets, macroprudential policies for NBFIs should generally focus on addressing systemic risks and strengthening resilience of NBFIs ex ante instead of crisis intervention and management, although we recognize a need for instruments that can be used both ex ante and ex post. Macroprudential instruments should reduce the likelihood that extraordinary measures such as central bank intervention and facilities, intervention by public authorities or that temporary softening of regulation is needed in a crisis.

The macroprudential approach to NBFIs should generally be based on the principle of same activity, same risk, same rules (activity-based regulation), so that similar activities, such as lending, are regulated consistently, taking into account that NBFIs have different risks and business models. We recognize that an activity-based approach is complex and should in our view complement, not replace, an entity-based approach. It is important to recognize that NBFIs are very heterogeneous and encompass a wide range of financial entities with important national differences. A 'one size fits all' regulatory framework must therefore be avoided.

This review presents a valuable opportunity for repurposing existing policy instruments to achieve a clearer macroprudential purpose, taking into account the work of the FSB in this area. New initiatives could potentially also have merit, such as:

- A European and system-wide stress test of NBFIs, including interdependencies between NBFIs and banks, domestic and cross-border interconnectedness and liquidity risk related to margin calls, coordinated at the EU level. Specifically, an EU liquidity stress test for the life insurance and pension sector related to cash margin calls on derivatives could have added value. It could be supplemented by a requirement that life insurance and pension companies internally conduct liquidity stress tests to assess these risks. Together, this could enhance their robustness towards a systemic shock. Generally, ensuring financial stability requires an understanding of how NBFIs react, especially under stress.
- A minimum set of borrower-based instruments (BBMs) for lending activity to households and non-financial corporations, e.g. commercial real estate, to be at the disposal of national competent authorities. We support that work on lending activities, including BBMs, focus on loans and not bonds, in order to advance work. Covered bonds are not relevant for such lending instruments as they can only be issued by credit institutions and is a source of financing and not lending.

Data quality and sharing of data for both EU and national authorities could be strengthened, including on NBFIs leverage strategies and transparency of investment activities cross-border. This would provide further insights into systemic risks and support effective policy responses and systemic risk analysis. Strengthening the NBFi data framework should not necessarily lead to new reporting requirements for entities and authorities.

Yours sincerely,



Christian Kettel Thomsen

Governor