

The COVID-19 pandemic a financial stability perspective

27/05/2021
13.00 – 14.00 CEST

WEBINAR

Introduction: **Steven VANACKERE**, Vice-governor National Bank of Belgium

Francesco MAZZAFERRO

Head of the Secretariat of the European Systemic Risk Board (ESRB)



ESRB
European Systemic Risk Board
European System of Financial Supervision

The COVID-19 pandemic – a financial stability perspective –

27/05/2021

Francesco Mazzaferro



Disclaimer

**DISCLAIMER:
VIEWS EXPRESSED AT THIS EVENT ARE THOSE OF THE
SPEAKER AND DO NOT NECESSARILY REPRESENT THOSE OF
THE ESRB OR OF ITS MEMBER INSTITUTIONS**

Overview

- 1 The market turmoil of March 2020
- 2 The ESRB's initial response to the pandemic
- 3 The changing landscape of finance
- 4 Conclusion

The ESRB – Bringing together EU policy makers

- Created in 2010 in response to financial crisis
Mission: macroprudential oversight of the EU financial system.
Objective: prevention and mitigation of financial stability risks
- Membership reflects broad mission and includes EU central banks, entity and market supervisors, ESAs, Commission,...



Christine Lagarde
President European Central Bank
/ ESRB Chair



Stefan Ingves
Governor Bank of Sveriges Riksbank
/ ESRB First Vice-Chair



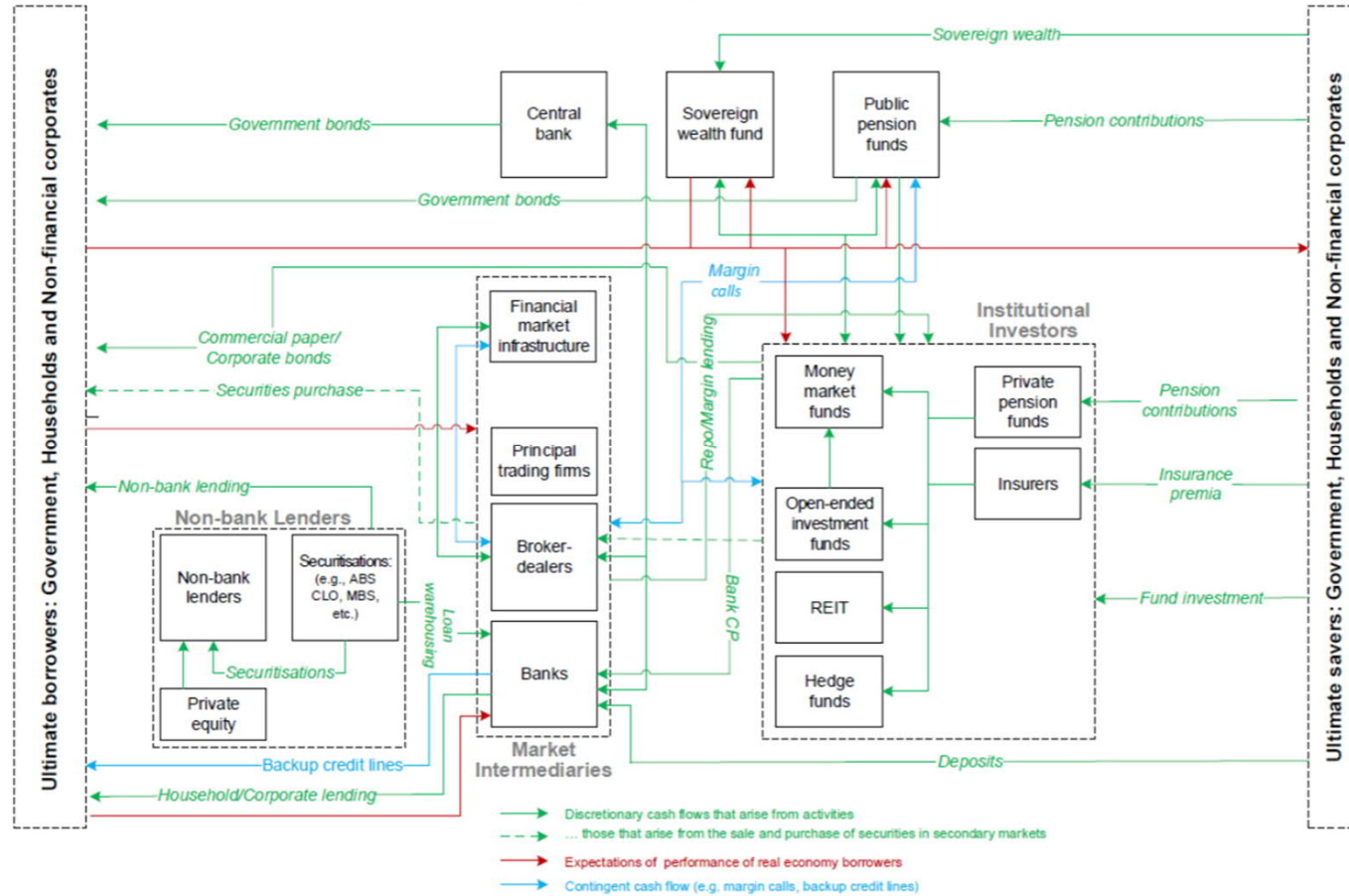
José Manuel Campa
Chairperson European Banking Authority
/ ESRB Second Vice-Chair

- Soft law tools: ‘Warnings’ and ‘Recommendations’ to authorities and Member States in the EU – ‘act or explain’



Context

Interconnectedness of the financial system

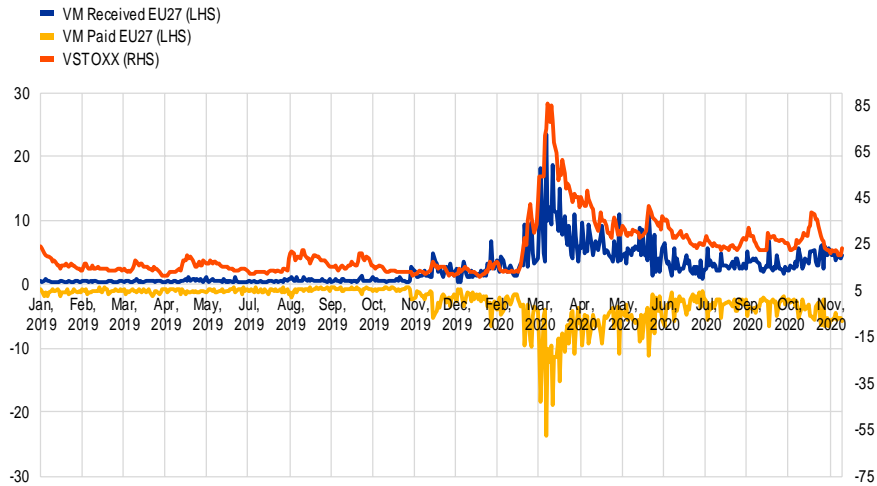


Source: FSB (2020), "Holistic Review of the March Market Turmoil", available at <https://www.fsb.org/wp-content/uploads/P171120-2.pdf>

The “dash for cash”

Daily variation margin (VM) received and paid by EU 27 CCPs

(EUR Billions (LHS); VSTOXX Index Level (RHS))



Sources: ESRB trade repository data and VSTOXX Public data plus ESRB Secretariat calculations.

Notes: The chart shows the daily flows of Variation Margin in EUR billions, that is the amount of VM received by CCPs from their clearing members and the amount that CCPs paid (back) to their clearing members.

Initial margin (IM) held at EU27 CCPs

(EUR Billions (LHS); VSTOXX Index Level (RHS))



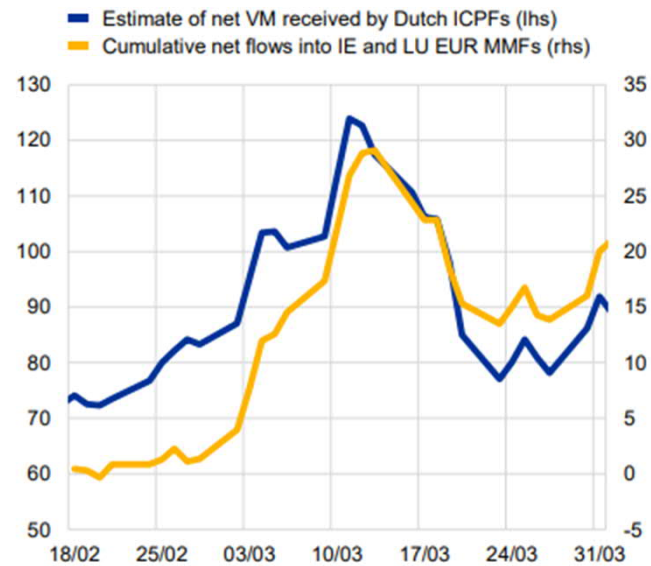
Sources: ESRB trade repository data and VSTOXX Public data plus ESRB Secretariat calculations.

Notes: The chart shows the daily amount of Initial Margin held at EU27 CCPs in EUR Billions in relation to market volatility as expressed by the VSTOXX.

Ramifications for other markets

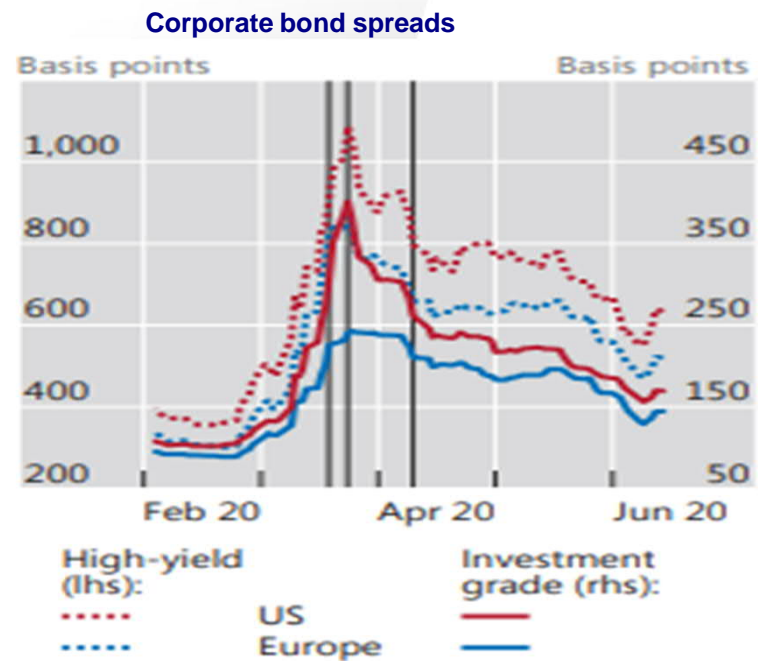
Co-movement of ICPF variation margin and euro denominated MMF flows

(€ billions)



Source: See European Central Bank (2020), 'Financial Stability Review', Box 8, November, available at <https://www.ecb.europa.eu/pub/pdf/fsr/ecb.fsr202011~b7be9ae1f1.en.pdf>

A monetary lifeline: central banks' crisis response



Source: BIS Annual Economic Report, 30 June 2020, <https://www.bis.org/publ/arpdf/ar2020e2.pdf>

Notes: The vertical lines in the centre panel indicate 18 March (ECB announced Pandemic Emergency Purchase Programme (PEPP)), 23 March (Fed announced Primary Market Corporate Credit Facility (PMCCF) and Secondary Market Corporate Credit Facility (SMCCF)) and 9 April (Fed announced extension of eligible securities under PMCCF and SMCCF to include recently downgraded bonds)



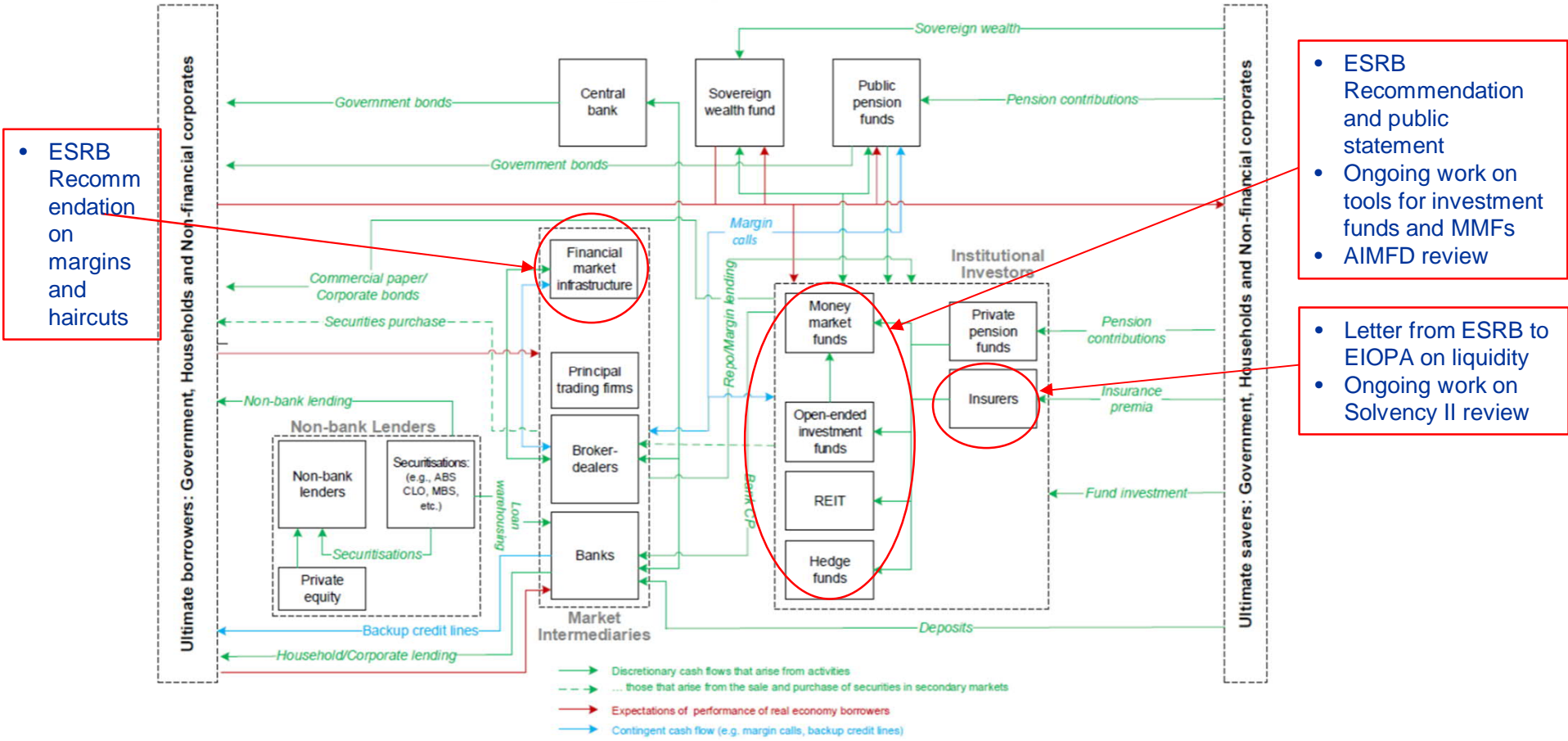
The ESRB's initial response to the pandemic

Five priority areas



For further details see: <https://www.esrb.europa.eu/home/search/coronavirus/html/index.en.html>

Interconnectedness of the financial system



• ESRB Recommendation on margins and haircuts

- ESRB Recommendation and public statement
- Ongoing work on tools for investment funds and MMFs
- AIMFD review

- Letter from ESRB to EIOPA on liquidity
- Ongoing work on Solvency II review

Source: FSB (2020), "Holistic Review of the March Market Turmoil", available at <https://www.fsb.org/wp-content/uploads/P171120-2.pdf>



The changing landscape of finance

They were all different...like snowflakes...

ARCHEGOS
CAPITAL MANAGEMENT



Greensill



H2O
Asset Management

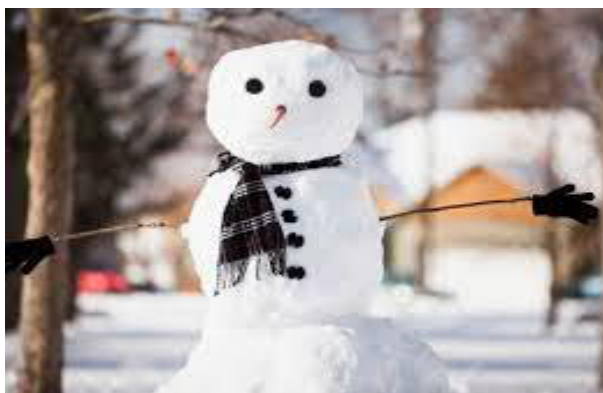


GameStop

wirecard



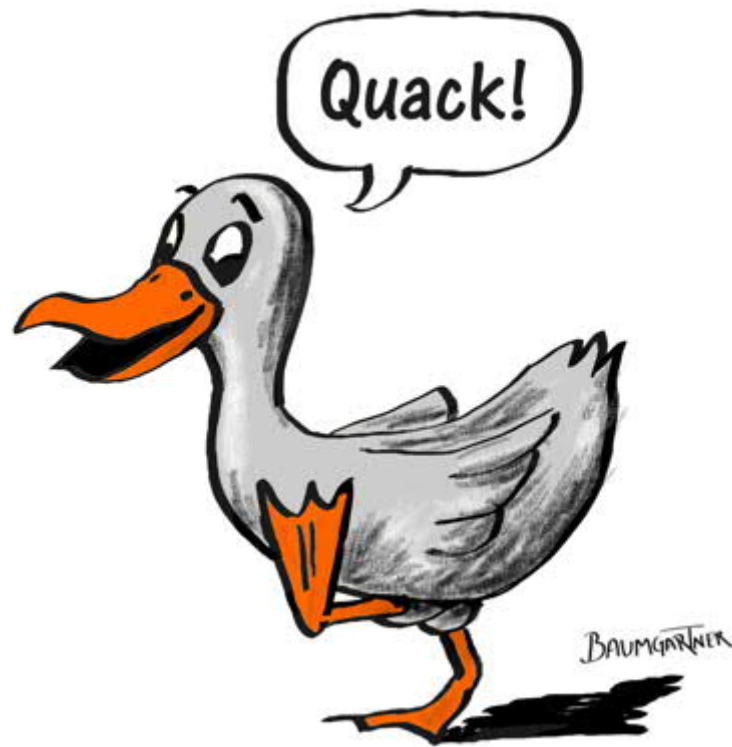
Snowflakes can turn into many things... what comes next?



Things are 'falling between the (regulator) cracks'

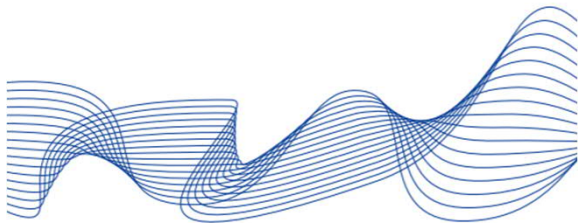


A regulatory 'duck test'?



A strategic task for regulators worldwide

Macroprudential policy
beyond banking:
an ESRB strategy paper
July 2016



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