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FINANCIAL STABILITY

The European Systemic Risk Board (ESRB) Main features, mandate & accountability

This briefing paper provides an overview of the European Systemic Risk Board (ESRB), its main features, mandate and accountability arrangements towards the European Parliament. It also includes a section on the role of macroprudential policy in preserving financial stability, main findings of the review of ESRB's regulation and review of EU macroprudential framework for the banking sector. The paper is an update of the previous version published in 2019.

The objectives and role of the ESRB as part of the European supervisory architecture

The European System of Financial Supervision (ESFS) was established in 2010 in response to recommendations from a high-level expert group led by Jacques de Larosière.

As part of this reform, **the European Systemic Risk Board (ESRB) and the European Supervisory Authorities (ESAs)** were established in November 2010. Within the newly established ESFS, several bodies work alongside the ESRB to oversee financial stability. This supervisory architecture includes a specific regulation that grants the European Central Bank (ECB) certain responsibilities to support the work of the ESRB. Separately, the ECB was also granted direct banking supervision powers for banks in the Euro Area in 2014 as part of the establishment of the **Single Supervisory Mechanism (SSM)**.

The main task of the ESRB, aaccording to the ESRB Regulation, is macroprudential oversight of the financial system within the European Union. The goal is to **prevent or reduce systemic risks to financial stability** that may arise within the financial system, while also considering broader macroeconomic factors to avoid widespread financial distress.

By doing so, the ESRB identifies and addresses different financial stability risks, regardless of their source. **The ESRB regularly publishes a risk dashboard that provides an overview of the risks it monitors.** This dashboard provides a comprehensive overview of quantitative and qualitative indicators of systemic risks.

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Additional input on different indicators that can support systemic risks monitoring are made available in the macro-prudential database on the ECB Data Portal.

The ESRB's primary tools involve collecting data, identifying and analysing systemic risks, issuing warnings, recommendations, and opinions as needed, and collaborating closely with other bodies within the ESFS: European Banking Authority (EBA), European Insurance and Occupational Pensions Authority (EIOPA), European Securities and Markets Authority (ESMA), Joint Committee on European Supervisory Authorities and national supervisory authorities in the Member States. The **warnings and recommendations** that the ESRB can issue follow a "comply or explain" procedure for the recipient. These measures are considered "soft powers" compared to those held by the ECB Supervisory Board or the ESAs.

According to the ESRB Regulation, the addressees of warnings and recommendations[1] can be the European Union as a whole, one or more Member States, one or more of the ESAs or one or more of the national supervisory authorities. These warnings and recommendations can be made public on a case-by-case basis (Article 18) and are published in a dedicated section of the ESRB website. A frequent subject of such recommendations and warnings is the real estate sector, namely the risks and vulnerabilities in the residential real estate sector of individual Member States. Moreover, according to Regulation EU 1176/2011, the ESRB warnings and recommendations should also warrant appropriate follow-up action by the Commission in the context of the surveillance of macroeconomic imbalances, where appropriate. The ESRB is also mandated to design scenarios of adverse economic and financial market developments.

The ESRB participates in the European economic governance framework as it is defined in Regulation EU 1176/2011 and Regulation 472/2013. The ESRB should provide its views on macroeconomic imbalances scoreboard draft indicators, relevant to the stability of financial markets and can take prudential steps that it deems necessary in the case of opening of an excessive imbalance procedure for a Member State. When the Commission places a Member State under enhanced surveillance, it must notify the ESRB of all relevant details.

Macroprudential policy strategy

When making decisions about macroprudential policies alongside other policies (e.g., monetary policy - which falls under the ECB's remit[2]) policymakers face important trade-offs. The choice between protecting the main mandate and promoting economic growth by providing easy access to credit while ensuring financial stability is not an easy one. Macroprudential and monetary policy are interconnected, especially given the lessons learned from the recent global financial crises, as both depend on the financial system for implementation and their effects. It is important, therefore, for both monetary and macroprudential authorities to consider how their decisions influence one another. By taking financial stability aspects into account, the effectiveness of monetary policy can be enhanced while also reducing barriers to implementing macroprudential measures. For differences between the two policies, as well as banking supervision, see **Table 2**.

Recent research from the ECB shows that monetary and macroprudential authorities need to consider key trade-offs and interactions when making policy decisions. There has been a substantial progress in creating frameworks to evaluate the costs and benefits of these policies, but measuring excessive risk-taking

[1] Recipients of ESRB recommendations must either comply or explain their inaction. If the ESRB finds that a recommendation has not been followed or that the justification is insufficient, it confidentially informs the addressees, the European Parliament, the Council, and relevant European supervisory authorities.

[2] The ECB monetary policy strategy (adopted in 2021) redefines the price stability target and it recognises the implications of financial stability and climate change on price stability.

is still a challenge. According to ECB findings, new methods to determine if risk-taking is getting out of hands and creating build-up of systemic risks is called for. Another point to think about is how these two policies redistribute resources, namely to analyse redistribution channels and different impacts on participants of the financial markets.

The SSM Regulation (Article 5) grants macroprudential powers to both national authorities and the ECB, sharing responsibility for these policies. Macroprudential instruments, as shown in **Table 1**, enhance the resilience of the financial system by increasing capital and liquidity buffers, the liquidity coverage ratio, and the net stable funding ratio. Both national authorities and the ECB can impose CCyBs to tackle the cyclical build-up of systemic risks. Additionally, national authorities can implement borrower-based measures to limit mortgage lending at the individual borrower level where applicable.

Table 1. Overview of differences between macroprudential policy, monetary policy and banking supervision

	Macroprudential policy	Monetary policy	Banking supervision
Focus	Resilience of the financial system as a whole	Control of inflation and economic activity	Resilience of individual financial institutions (banks)
Objective	Prevent systemic risks and enhance overall financial stability	Achieve price stability	Safeguard the soundness of individual entities
Instruments	Macroprudential measures: capital-based measures, borrower-based measures, liquidity-based measures, stress tests	Interest rates and balance sheet programmes via market operations	Microprudential measures; regulatory capital requirements, stress tests
Interactions	Interaction with banking supervisors to address systemic risks; interaction with monetary policy to achieve overall stability	Interaction with macroprudential measures through shared transmission channels in the financial system (banking sector), both policies complement each other in safeguarding price and financial stability	Regular communication with macroprudential authorities (Macroprudential Forum)

Note: Macroprudential Forum, which includes members of the ECB's Governing Council and Supervisory Board, serves as a platform for regular high-level discussions that facilitates collaboration by combining microprudential and macroprudential perspectives from across Europe.
Source: EGOV elaboration based on ECB website.

Organisation of the ESRB

The ESRB has a strong organisational link with the ECB, being also headquartered in Frankfurt, Germany, and comprises the **General Board (GB),** the **Steering Committee (SC),** the **Secretariat, the Advisory Scientific Committee (ASC) and the Advisory Technical Committee (ATC).** The main decision-making body is the General Board, while the Steering Committee drives the overall work of the ESRB, with support from the advisory committees. The ATC provides support for the work of the ESRB and the ASC performs scientific research to support the GB in making well-informed macroprudential decisions. According to Council Regulation (EU) 1096/2010, the ECB shall ensure a Secretariat and thereby provide daily analytical, statistical, logistical and administrative support to the ESRB. The internal organisation of the ESRB reflects the involvement of several EU-wide stakeholders in the oversight of the financial stability of the EU (see **Figure A.1.** in Annex).

The five bodies of the ESRB are organised as follows:

- the **General Board** (66 members), made up by the ECB president (who also acts as President of the ESRB), the ECB Vice-President, the 27 National Central Bank (NCB) Governors, the three ESAs Chairmen, one Representative of the European Commission, the Chair and the two Vice-Chairs of the ASC, the Chair of the ATC (all former listed with voting rights) and Representatives of the national competent/supervisory authorities and the Economic and Financial Committee (EFC) President, the SSB and SRB Chair, one official from Iceland, Norway and Lichtenstein as non-voting members. The GB is the main decision making body in the ESRB structure (Article 4(2) of the ESRB Regulation) (full list of members available here);
- the **Steering Committee** (14 members) comprises the ESRB President, the first ESRB Vice-Chair, the ECB Vice-President, four ESRB GB Members (with voting rights), one Member of the Commission, the three ESA Chairmen, the Chair of the ATC, the Chair of the ASC, the EFC President;
- the **Advisory Scientific Committee (ASC)** has 15 external experts and the Chair of the ATC;
- the **Advisory Technical Committee (ATC)** is composed of 27 NCB officials, 27 National Supervisory Authority (NSA) officials, one ECB Official, two Commission Officials, one ASC Member, three ESA Officials, one EFC Member, one SRB official, one official from Iceland, Norway and Lichtenstein; and
- the **Secretariat** is composed of staff appointed by the ECB.

Decisions at the General Board are taken by majority and each voting member has a vote. The ESRB Chair has the authority to cast a deciding vote in the case of a tie. However, a two-thirds majority is needed to adopt a warning or recommendation, as well as to make these public. A quorum of two thirds (2/3) of voting members is required for the GB to take decisions, including whether to make a warning or recommendation public. The GB meets at least four times a year and is convened by its Chair. The ESRB rules of procedure complement these provisions regarding the GB and other bodies within the ESRB structure.

Accountability and transparency of the ESRB

The ESRB is accountable to the European Parliament under Article 19 of the ESRB Regulation: *"**At least annually and more frequently in the event of widespread financial distress, the Chair of the ESRB shall be invited to an annual hearing in the European Parliament**, marking the publication of the ESRB's annual report to the European Parliament and the Council. That hearing shall be conducted separately from the monetary dialogue between the European Parliament and the President of the ECB."*

Moreover, the Chair of the ESRB shall hold confidential oral discussions at least twice a year, behind closed doors (*in an in-camera setting*) with the Chair and Vice-Chairs of the ECON Committee on the ongoing activity of the ESRB. Article 5(4) of the same Regulation provides that the Chair and Vice-Chairs of the ESRB '*shall present to the European Parliament, during a public hearing, how they intend to discharge their duties [...]*'.

The Regulation foresees additional accountability mechanisms, which are as follows:

- The Chair and the Vice-Chairs present to the European Parliament, during a public hearing, how they intend to discharge their duties under the Regulation;
- The EP may invite the Chair of the ESRB to present that decision and the addressees may request to participate in an exchange of views;

- Addressees of ESRB recommendations are required to follow up on such recommendations and inform the ESRB thereof; if the relevant recommendation has been made public and not followed upon, the EP may invite the Chair of the ESRB to present that decision and the addressees may request to participate in an exchange of views;
- The ESRB shall also examine specific issues at the invitation of the EP, the Council or the Commission (Article 19(3) of the Regulation);
- The EP may request the Chair of the ESRB to attend a hearing of its competent Committees.

ESRB Regulation requires ESRB members to act impartially (Article 7) and to "*consider only the financial stability of the Union as a whole*". The provision mirrors similar clauses in the ESAs regulations and prevents members of the ESRB from receiving instructions or be influenced by any public or private entity. It also requires members of the ESRB that are members of the ECB Governing Council to maintain a separation of their respective mandates when deciding on monetary policy and macroprudential policy and not to hold a position in the financial sector. The ESRB members are also subject to professional secrecy obligations.

The ESRB Regulation and Decisions by the ECB and the ESRB contain provisions addressing access to ESRB documents. The ECB decision amends the ECB general stance on access to documents to better reflect the macroprudential mandate. The ESRB decision adds specific provisions reflecting the nature of ESRB documents and adjusting the ECB decision on access to documents to the ESRB remit, mandate and functions. In particular, the ESRB decision allows restricting access to ESRB documents when such access would "*undermine the protection of the public interest in the confidentiality or effectiveness of its proceedings, activities, discussions, warnings or recommendations*".

Nevertheless, the rules of procedure refer to consultations ahead of issuing warnings and recommendations, as appropriate and that responses to invitations by the EP, the Council or the Commission to examine specific issues, are, as a rule, public. The ESRB also publishes on its website all press releases reflecting decisions and discussions held.

In 2019, the **ESRB Regulation was revised to strengthen the ESRB's governance**, and among other changes, improve the ESRB's accountability and transparency. **The Annex of this briefing outlines main changes adopted** to enhance these aspects.

The role of the ESRB in the European macroprudential policy framework

ESRB regulation defines a systemic risk as a risk of disruption in the financial system that could seriously harm the EU's economy, impacting one or more Member States and the internal market. Any financial intermediaries, markets, or infrastructures may be systemically important to some extent. These risks can arise from severe macroeconomic shocks, financial imbalances (excessive credit growth), leverage and maturity mismatches as well as contagion affects.

The ESRB has been acting as a catalyst for setting up the macroprudential policy framework in the EU. In order to contain systemic risks, macroprudential policies aim to prevent their excessive build-up to smoothen the financial cycle (***time dimension***), strengthen the financial sector's resilience to limit contagion (***cross-section dimension***), and promote a system-wide approach in regulation to align proper incentives for market participants (***structural dimension***).

Within this macroprudential policy framework, the *Capital Requirements Directive* and *Capital*

Requirements Regulation (CRD (I)V/CRR[3]) in place since 2014 have given the mandate to the ESRB to coordinate Member States' macroprudential policies (see **Table 2**), provide guidance to the national competent authorities and ensure that the **countercyclical capital buffer (CCyB)**[4] is applied consistently across the EU. The ESRB may also give opinions regarding the proper use of national flexibility measures to the Council, the European Commission and individual Member States. Opinions to the Commission are mandatory for any Member State imposing **systemic risk buffers (SyRB)** that is above 5%, while recommendations could be placed on SyRB if/when proposed rate, ranging between 3-5%, is applied to a subsidiary of a parent company established in another Member State.[5] In addition, following the adoption of CRD V, **sectoral SyRBs** could be imposed to enhance the resilience of the financial system against potential sector-specific systemic risks. For example, when applied to the real estate sector, these buffers operate on a sectoral basis; if risks materialise, the full or partial release of this buffer should help absorb losses in the portfolio affected by the SyRB.

CRD V and **CRR II,** effective since 2020, **have clarified and strengthened the ESRB's role in macroprudential policy decisions**. They established the **ESRB as a notification hub, requiring authorities to inform it of any planned or implemented macroprudential measures**. The ESRB then shares this information promptly with relevant stakeholders; these changes enhance the ESRB's ability to oversee macroprudential policies and identify systemic risks effectively. Thus, the ESRB can better monitor the adequacy and consistency of these policies across Member States. Under CRD IV/CRR, the ESRB is required to publish Member States' macroprudential measures, thus ESRB regularly publishes the respective overviews of macroprudential measures which are made available on the ESRB website: i) "Overview of national macroprudential measures" and ii) "Overview of national capital based measures". The list of national macroprudential authorities and national designated authorities in EEA Member States[6] is available here.

On the national flexibility measures under Article 458 CRR, the ESRB has been given a mandate (along with EBA) to provide "opinions" regarding the proper use of (stricter national) measures proposed by Member States to the Council, the European Commission and the Member State concerned. These opinions must assess, among other things, whether the measure is necessary, effective and proportionate, and whether the systemic risk cannot be adequately addressed by other measure(s). This mechanism ensures the implementation of stricter national measures while maintaining compliance with the principles of the single market. In practice, this requires a solid economic framework to be built in order to assess the relative effectiveness of macroprudential instruments in mitigating certain risks and explore possible cross- border spillovers[7].

There are both permanent and non-permanent ESRB Assessment Teams (AT) created to assess macroprudential policy measures notified to the ESRB and to prepare ESRB opinions. Each AT is composed of thirteen permanent members (two representatives of the ESRB Secretariat, one representative of the

3 Further progress is expected with upcoming CRD VI/CRR III from January 2025, which will consist of the latest global regulatory reforms.

4 The countercyclical capital buffer (CCyB) is part of a set of macroprudential instruments, designed to help counter pro-cyclicality in the financial system. Capital should be accumulated when cyclical systemic risk is judged to be increasing, creating buffers that increase the resilience of the banking sector during periods of stress when losses materialise. This will help maintain the supply of credit and dampen the downswing of the financial cycle. The CCyB can also help dampen excessive credit growth during the upswing of the financial cycle. Please find current CcyB rates set here.

5 Please see announced SyRB rates here.

6 The term „designated authority" refers to the voting members in the ESRB board that are designated by the Member State to set certain macroprudential requirements under the Capital Requirements Regulation (EU) No. 575/2013 and the Directive 2013/36/EU. In some Member States, there is a separate macroprudential authority ("national authority entrusted with the conduct of macroprudential policy") that provides a non-voting member.

7 The ECB, however, has the authority to impose more stringent measures than those implemented at the national level, if needed to mitigate risks to financial stability - the power is established under Article 5 of the SSM Regulation and Article 13 of the ECB's Rules of Procedure.

ECB and one representative of the SSM, nine representatives of different EU national central banks) and three permanent observers (two representatives of the European Commission and one representative of the EBA). Jurisdictions which have notified a macroprudential policy measure should be represented by two non-permanent observers. Institutions with a member on the GB can also have one non-permanent observer, if they have material concerns regarding possible negative cross-border externalities of the notified measure.

Macroprudential measures in one Member State usually apply only to domestic banks and foreign bank subsidiaries within that country, excluding exposures held by financial institutions from other EU Member States. **Reciprocity as a common policy instrument** ensures that these measures also cover cross-border exposures, addressing potential gaps in coverage. Reciprocation occurs when the authority in another Member State adopts the same or equivalent macroprudential measure as the activating Member State to address a specific systemic risk. This ensures that financial institutions in both countries are similarly impacted by the risk.

The ESRB handbook aims to assist macroprudential NCAs in the EU in operationalising macroprudential policy. It sets out a policy framework that links intermediate objectives, key indicators and macroprudential instruments. It aims to support macroprudential authorities in developing their own policy strategies.

Table 2. Competences of the ESRB under the CRD (I)V/CRR package

ESRB Role under CRD V/CRR			
GUIDANCE	**OPINIONS**	**RECOMMENDATIONS**	**CONSULTATION**
on CCyB --- Art. 135 CRD	- on SyRB to Commission for MS imposing buffer rates above 5%; - on O-SII/G-SII to Commission for MS imposing buffer rates above 3% in situations where the combined total of SyRB rate and O-SII/G-SII buffer rate applicable to the same institution exceeds 5% - regarding the proper use of proposed measures to the Council, the Commission and the MS concerned; - in case the SyRB rate is set or adjusted to exceed a combined systemic risk buffer rate of 5% --- Art. 133(11&12) CRD, Art. 458 CRR	on SyRB for buffer rates between 3% to 5% when there is at least one EU- owned foreign subsidiary in the imposing MS --- Art. 133 (6) CRD	on legislative review of the macroprudential framework --- Art. 513 CRR

Source: EGOV elaboration based on the ESRB Review of EU Macroprudential Policy in the EU (Special Feature A).

Review of the EU macroprudential framework for the banking sector

In 2021, Commission initiated a call for advice on improving the EU's macroprudential toolkit. The main goal of this call was to **enhance the effectiveness, efficiency, and transparency of current macroprudential framework, while considering its links to other areas like prudential regulation and resolution**. With regard to Article 513 of CRR, Commission has consulted both ESRB and EBA on this topic. Main design of the review was to ensure that the macroprudential framework could better respond to new challenges in the financial system; namely assessing how effectively it could address emerging risks and improve the overall financial stability.

The call focused on 4 following areas:

- overall design and functioning of the buffer framework;
- missing or obsolete instruments;
- internal market considerations, and
- global risks.

Against this backdrop, the ESRB has proposed a comprehensive set of measures aimed at enhancing the EU macroprudential framework. The ESRB called for a banking macroprudential policy framework that (1) should enable policymakers to take proactive measures to build resilience emergence of systemic risks; (2) is adaptable to structural changes in the financial system and to risks associated with cyber threats and climate change; and (3) is part of an integrated framework that encourages consistent regulation across all financial activities and promotes cooperation among authorities at all levels. Additionally, the ESRB called for simplification of legal provisions, both procedurally and conceptually, to facilitate their implementation by authorities while preserving existing safeguards.

Finally, the Commission's report to the EP and the Council that was released in January 2024 addressed both the Review of the EU macroprudential framework for the banking sector and the systemic risks associated with non-bank financial intermediaries (NBFIs), which have significantly grown in recent years and are increasingly interconnected with other financial institutions. Even though this report had to be finalised by June 2022, Commission decided to delay the publication of its outcome to better evaluate the impacts of the COVID-19 pandemic, and associated macroeconomic conditions, the rise of NBFIs, and the banking crisis in the US in March 2023.

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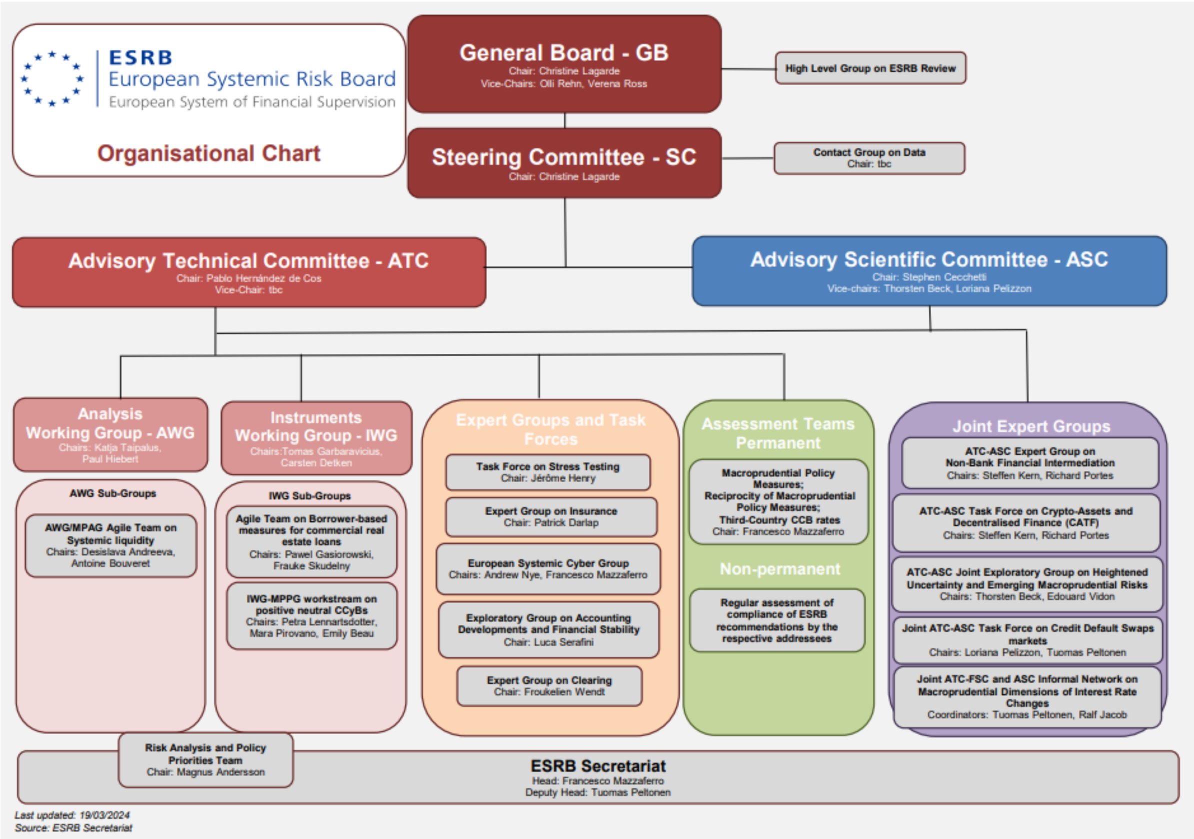
ANNEX

Figure A.1. ESRB Organisational Chart



Source: ESRB Secretariat, available here.

Review of the ESRB's founding regulation

The regulations establishing the ESRB and the ESAs require the Commission to publish a general report on the functioning of the new authorities and the ESFS as a whole, as well as a review of the ESRB's mission and organisation. The Commission released these reports in August 2014.

In the Commission's report it was concluded that "*during the first three years of its existence, the ESRB has managed to establish itself as a key component of the European supervisory framework[,] (...) has been providing a unique forum for discussion on financial stability issues throughout the crisis and (…) has raised awareness among policy makers on the macroprudential dimension of financial policies and regulations*." The Commission report also pointed to possible improvements, both of a non-legislative and legislative nature, but refrained from coming forward with proposals at the time. The Council was also involved in assessing ESRB and issued conclusions in November 2014. The Council underlined that "*caution should be taken when considering more structural changes with regard to the ESRB. The Council RECOGNISES the need to enhance the ESRB's governance and decision-making, but STRESSES that it is necessary to identify and consider a broader range of suggestions and solutions before concrete changes are made*".

Moreover, in its Resolution of 9 July 2015 on building a Capital Markets Union (CMU), the EP emphasised that the legal and supervisory frameworks plays a fundamental role in avoiding excessive risk taking in financial markets; it underlined " *that a strong CMU project needs to be accompanied by strong EU-wide and national supervision including adequate macroprudential instruments;*". That recommendation reflects concerns raised in a study commissioned by the Parliament and published in October 2013.

Building on these reports and taking into account several public consultations (launched in 2013, 2016 and 2017) **on strengthening the governance of both the ESRB and ESAs**, the EP and the Council have examined the ESRB Regulation. Following up and as requested by Article 20 of the ESRB Regulation, and on the basis of a Commission proposal, the political agreement on the changes has been reached in April, 2019. Final revised text can be found on this link.

The main targeted changes are presented:

- **ESRB Chair:** Since establishment of the ESRB, it has been chaired by the President of the ECB and this set-up was initially envisaged as temporary (5 year period). As the ECB President has conferred authority and credibility to the ESRB and ensured that the ESRB can rely on the expertise of the ECB in the area of financial stability, the co-legislators decided that the ECB President will chair the ESRB on a permanent basis.
- **ESRB Vice-Chairs:** The co-legislators have agreed to strengthen and clarify further the roles of the ESRB Vice-Chairs and Head of the ESRB Secretariat, as well as giving them a bigger role to play in the external representation of the ESRB.
- **ESRB Membership:** The setting-up of the Banking Union will be reflected in the ESRB Governance after the amendments. The Chair of the Supervisory Board of the ECB and the Chair of the Single Resolution Board have become non-voting members of the ESRB General Board. Corresponding changes will be made to the ATC. These changes should facilitate information sharing between the different authorities. The co-legislators have also agreed to introduce some flexibility as regards the nomination of each Member State's voting member in the ESRB General Board. The Member States are able to choose between the governor of the central bank and a high-level representative of a designated authority for the application of macroprudential instruments in accordance to the EU law (CRD/CRR). This flexibility allows to better reflect the existing national regulatory framework diversity within the EU and to ensure that the Member States are represented by the most appropriate authority or body.
- **Warnings and recommendations:** The agreement broadened the list of potential addresses of ESRB warnings and recommendations. The co-legislators have included the national supervisory authorities, the Single Resolution Board and the ECB (for its tasks conferred by the SSM Regulation as regards micro and macroprudential supervision, i.e. not pertaining the conduct of monetary policy) as potential addresses of warnings and recommendations. Moreover, the co-legislators have noted that the ESRB is expected to monitor and assess risks to financial stability regardless of their origin, including the implications of monetary policy. Last but not least, the regulation was amended so that the ESRB warnings and recommendations should be transmitted not only to the European Commission and the EU Council, but also to the EP and the ESAs.
- **Better accountability and transparency:** In line with Better Regulation principles and in order to enhance the democratic accountability and transparency, the ESRB General Board is entitled to make an announcement of its deliberations public and/or hold press conferences after its meetings. Also, the ATC and the ASC are expected to consult stakeholders, where appropriate, at an early stage and as widely as possible to inform their opinions, recommendations and decisions