



ECB-UNRESTRICTED

Mr Olivier Guersent
Director General
Financial Stability, Financial Services and Capital Markets Union
(DG-FISMA)
1049 Brussels
Belgium

2 May 2016
ESRB/2016/0252

Mario Draghi
ESRB Chair

Dear Mr Guersent, *Dear Olivier,*

I am writing in response to your letter dated 4 November 2015 concerning the application of Article 459 of the Capital Requirements Regulation (CRR).

According to this article, the European Commission is empowered to adopt delegated acts to impose for a period of one year, stricter requirements for exposures where this is necessary to address changes in the intensity of microprudential and macroprudential risks which arise from market developments affecting all Member States and where the instruments of the CRR and CRD are not sufficient to address these risks. The Commission is required to report on this issue to the European Parliament and the Council at least on an annual basis. In drawing up this report, the Commission shall be assisted by the ESRB.

I would like to inform you that based on its surveillance of systemic risks in the EU, the ESRB has not yet seen any circumstances where the Commission would wish to use this power.

The ESRB identified four overarching risks for financial stability in the EU over the past year:

- Re-pricing of risk premia in global financial markets, amplified by low market liquidity;
- Further weakening of banks' and insurers' balance sheets;
- Deterioration of debt sustainability in sovereign, corporate and household sectors;
- Shocks and contagion from the shadow banking sectors (in particular the insurance and the asset management sectors) to the financial system.

The ESRB also worked on two important areas of more structural risks, namely the importance of the residential and commercial real estate sector for financial stability, and systemic risks related to a low carbon society. The ESRB further initiated work on the impact of a prolonged period of low levels of interest rates on financial markets and institutions, work that has not yet been concluded.

Address
ESRB
Sonnemannstrasse 20
60314 Frankfurt am Main
Germany

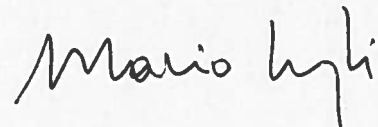
Postal address
ESRB
60640 Frankfurt am Main
Germany

Tel.: +49 69 1344 0
Fax: +49 69 1344 6000
E-mail: info@esrb.europa.eu
Website: www.esrb.europa.eu

For these risks, actions are underway both at the national and the European level. At this juncture, there does not seem to be the need for EU-wide measures in the form of stricter exposure requirements that would affect all Member States.

Nevertheless, the ESRB continues to believe in the importance of Article 459 of the CRR as a potential course of action in helping to address specific systemic risks in the EU. The ESRB will be in immediate contact with the European Commission services should the conditions requiring action via this Article materialise.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Mario Kyli". The signature is written in a cursive, slightly slanted style.