



## Press release

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# ESRB publishes EU Non-bank Financial Intermediation Risk Monitor 2022

The European Systemic Risk Board (ESRB) has today published the EU Non-bank Financial Intermediation Risk Monitor 2022 (NBFi Monitor). This is the seventh edition in an annual series monitoring systemic risks and vulnerabilities related to certain aspects of non-bank financial intermediation, including investment funds and other financial institutions (OFIs) such as financial vehicle corporations, security and derivative dealers and financial corporations engaged in lending. In 2021 the total assets of EU investment funds and OFIs grew by 9.2%, from €39.0 trillion to €42.6 trillion. The entity-based analysis is complemented by an activity-based assessment looking at risks and vulnerabilities in securities financing transactions, derivatives and securitisations which are used across entities and where risks can arise from the use and reuse of financial collateral.

This year's edition of the NBFi Monitor highlights the following risks:

- disorderly market corrections, possibly leading to losses, substantial redemption requests and liquidity strains for some investment funds holding less liquid assets;
- a rise in liquidity and credit risks as bond funds further increase their holdings of lower-rated and less liquid fixed income securities;
- excessive use of leverage and interconnectedness that might magnify shocks to financial stability.

To complement the main monitoring sections and support the identification of risk, the NBFi Monitor 2022 includes topical boxes and three special features. The first special feature uses Archegos as a case study to illustrate how excessive leverage and concentration risk can materialise. It also demonstrates how regulatory reporting can be used to monitor systemic risk and inform macroprudential policy decisions. The second special feature estimates the impact of an interest rate shock on bond funds using data on portfolio holdings and derivative exposures for a sample of the largest EU bond funds. The analysis shows that the effects for individual funds vary widely and that, for some bond funds, marked-to-market losses arising from a rise in interest rates could be substantial. Large losses could lead to increased redemptions and result in amplification effects, as asset fire sales could further exacerbate the initial shock to bond prices. The third special feature

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considers whether linkages between insurers and alternative investment funds (AIFs) could contribute to the propagation of risks for the latter. It demonstrates that risks related to liquidity transformation and leverage are similar across AIFs, irrespective of whether insurance companies hold a large proportion of a fund's assets. The NBFi Monitor 2022 also provides an initial overview of how the war in Ukraine has affected non-bank financial intermediation.

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