



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Andrea ENRIA

Chair of the Supervisory Board

COURTESY TRANSLATION

Mr Marco Zanni
Ms Francesca Donato
Mr Valentino Grant
Mr Antonio Maria Rinaldi
Members of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 19 May 2021

Re: Your letter (QZ-023)

Honourable Members of the European Parliament, dear Mr Zanni, Ms Donato, Mr Grant, Mr Rinaldi,

Thank you for your letter on the exposure of the European banking system to speculative investment risk, which was passed on to me by Ms Irene Tinagli, Chair of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 20 April 2021.

In your letter you make reference to the Archegos incident. On 26 March 2021 Archegos Capital Management, a family office, defaulted on margin calls from several global investment banks. The firm had built large and concentrated positions through the use of total return swaps. As a family office based in the United States, Archegos was exempt from the disclosure obligations applicable to hedge funds.

With respect to the specific questions posed in your letter in relation to this incident, I cannot comment on the actions of individual credit institutions as the ECB is subject to professional secrecy requirements under the Capital Requirements Directive. Nonetheless, please note that, based on currently available information, the impact of the Archegos collapse on the banks directly supervised by the ECB is not material.

As part of its banking supervisory activities, the ECB monitors the evolution of counterparty credit risk deriving from, among other sources, primary brokerage activities, including risks stemming from the hedge fund activities carried out by a few major banks supervised by the ECB. As I have recently mentioned,¹ the world of non-bank financial institutions has developed significantly in size, leverage and concentration of exposure, and this is an area of risk which we will keep under watch. However, the absence of disclosure requirements for a wide set of non-regulated financial firms - sometimes banks themselves do not have

¹ <https://www.bankingsupervision.europa.eu/press/interviews/date/2021/html/ssm.in210506-ec5fa1bcac.en.html>

granular information on the leverage and concentration of exposures of their financial counterparts - may hinder the ability of the ECB to accurately assess the risks stemming from this sector.

Regarding your question on whether action is required to avoid any related systemic risks, please note that over the last ten years banking regulators have on several occasions issued recommendations and guidelines to address risks related to non-bank entities. Further steps towards ensuring greater transparency in the disclosure by credit institutions of exposures to such entities may be considered in the future by the European Commission and the European Banking Authority (EBA) as the standard-setting bodies. For example, the EBA may consider updating the Guidelines on limits on exposures to shadow banking entities that it issued in 2016. Supervisors could then check whether banks have followed these guidelines.

Please note, however, that responsibility for imposing registration, reporting and other obligations on hedge funds, family offices and similar non-bank entities lies outside the remit of ECB Banking Supervision.

Yours sincerely,

[signed]

Andrea Enria