

To: **INTERNATIONAL**, Solvency II WG  
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cc:  
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Subject: ESAs Joint Committee Report on risks and vulnerabilities in the EU financial system of Spring 2023

## Summary

On 25 April, the ESAs, including EIOPA, issued their **Spring 2023 Joint Committee Report on risks and vulnerabilities in the EU financial system ([here](#))**. While noting that EU financial markets remained broadly stable despite the challenging macro environment and recent market pressure in the banking sector, NSAs, financial institutions and market participants are now being called on to remain vigilant in the face of mounting risks.

The ESAs are recommending NSAs, financial institutions and market participants to undertake the following policy actions:

- **The strong regulatory frameworks that underpin the resilience of the financial sector are to be maintained**, including by faithfully implementing the finalization of Basel III in the EU without delay and with as little deviation as possible, **and by avoiding further deviations from EIOPA's advice on the Solvency II review**;
- The **broader impact of policy rate increases** and **sudden rises in risk premia** on financial institutions and market participants should be considered and accounted for in (liquidity) risk management;
- Financial institutions and supervisors should be aware of and **closely monitor the impacts of inflation risk**.
- Risk management capabilities and disclosures for **ESG risks should be enhanced as these risks are increasingly becoming a source of financial risk**.
- **Liquidity risks arising from investments in leveraged funds** and the **use of interest rate derivatives** should be **monitored** closely;
- Financial institutions and supervisors **should remain prepared for a deterioration in asset quality** and supervisors should keep a close eye on loan loss provisioning;

More information can be found [here](#).