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PRESS RELEASE

Update by the NBB and the FSMA on asset management and non-bank financial intermediation in Belgium

The National Bank of Belgium (NBB) and the Financial Services and Markets Authority (FSMA) are today publishing an updated study on *Asset management and non-bank financial intermediation* (NBFi) in Belgium. This update is part of the regular monitoring of these activities, which constitutes a €138 billion market in Belgium.

In 2017, the FSMA and the NBB published an initial, extensive report on *Asset management and shadow banking* in Belgium. The third update of this report, with recent figures and an analysis of national and international developments, is now available.

The initial report and its updates address the trend toward a more market-based financial system. This type of financing offers an alternative to borrowing from banks and helps to support the real economy. It fits in well with the argument, put forward in Europe, that the economy should become less dependent on banks for financing. But non-bank financial intermediation can – like any other financial activity – also give rise to systemic risks that could threaten the stability of the financial system.

Financing via the markets can take many forms. In the report, the supervisory authorities analyse asset management activities and non-bank financial intermediation in Belgium. The most important aim of the report is to keep a finger on the pulse of the sector. The supervisors pay particular attention to the risks associated with these activities and their interconnectedness with other sectors.

The FSMA and the NBB have calculated the scale of non-bank financial intermediation in Belgium based on the definition provided by the Financial Stability Board, the organization which, on behalf of the G20, oversees reforms of the financial sector at a worldwide level. At the end of September 2020, the total financial assets in this category amounted to 138 billion euros. These assets consist mainly of money market funds and non-equity investment funds. The vast majority of these funds are under the supervision of the Belgian authorities.

As things stand currently, no substantial systemic risks have been identified in relation to asset management and non-bank financial intermediation.

The developments in both areas of activity and the links with other sectors of the economy do, however, require careful monitoring, including for potential reputational risks to financial service groups. The latter includes the so-called 'step-in risk', namely, the risk that these groups may de facto feel obliged to compensate clients for the risks associated, for example, with the investment funds sold by these groups, even where they are not contractually bound to do so.

During the COVID-19 crisis, the FSMA instituted closer supervision of the asset management sector and collected additional data on Belgian public open-ended investment funds. These additional analyses showed that Belgian public open-ended investment funds have for the most part held up well during the period of the COVID-19 crisis and market stress. Moreover, the massive adoption of *Liquidity Management Tools* by Belgian public open-ended investment funds has been a response to a specific recommendation in the initial report.

Lastly, the NBB and the FSMA continue to take an active part in international work aimed at providing a clearer picture of European and international developments in the NBFIs sector and, where necessary, strengthening the regulatory framework.

According to Minister of Finance Vincent Van Peteghem: "The non-banking financial sector makes an essential contribution to financing the economy. Investment funds and asset managers, in particular, that succeed in attracting individual assets for investment, play a crucial role. The monitoring conducted by the FSMA and the NBB not only makes it possible to gain a better overview of this part of the financial sector, but also ensures that the risks - both to financial stability and from the perspective of consumer protection - are clearly understood. Nevertheless, recent events on the international capital market have shown that careful vigilance continues to be necessary."

As noted by Governor Pierre Wunsch of the NBB: "The vulnerabilities that appeared in March 2020 in certain subsegments of the worldwide NBFIs sector had a limited impact on the Belgian market. In line with the previous analyses, the NBB-FSMA report confirms once again that the Belgian market for asset management and non-banking financial intermediation can be considered fundamentally healthy. The crucial role of this sector in financial intermediation was thus never under threat. Given the rapid developments in this sector, supervisors do need to remain vigilant. Regular updates of the analysis just published will be part of that ongoing monitoring."

In the view of Jean-Paul Servais, Chairman of the FSMA: "The COVID-19 crisis has once again demonstrated the importance for the FSMA and the NBB of having reliable information and data on the entities under our supervision and the need for investment funds to be sufficiently prepared to deal with crises. This report illustrates some of the progress and efforts made to improve our common ability to monitor the evolution of the sector."

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