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2Q21 Regulation Outlook

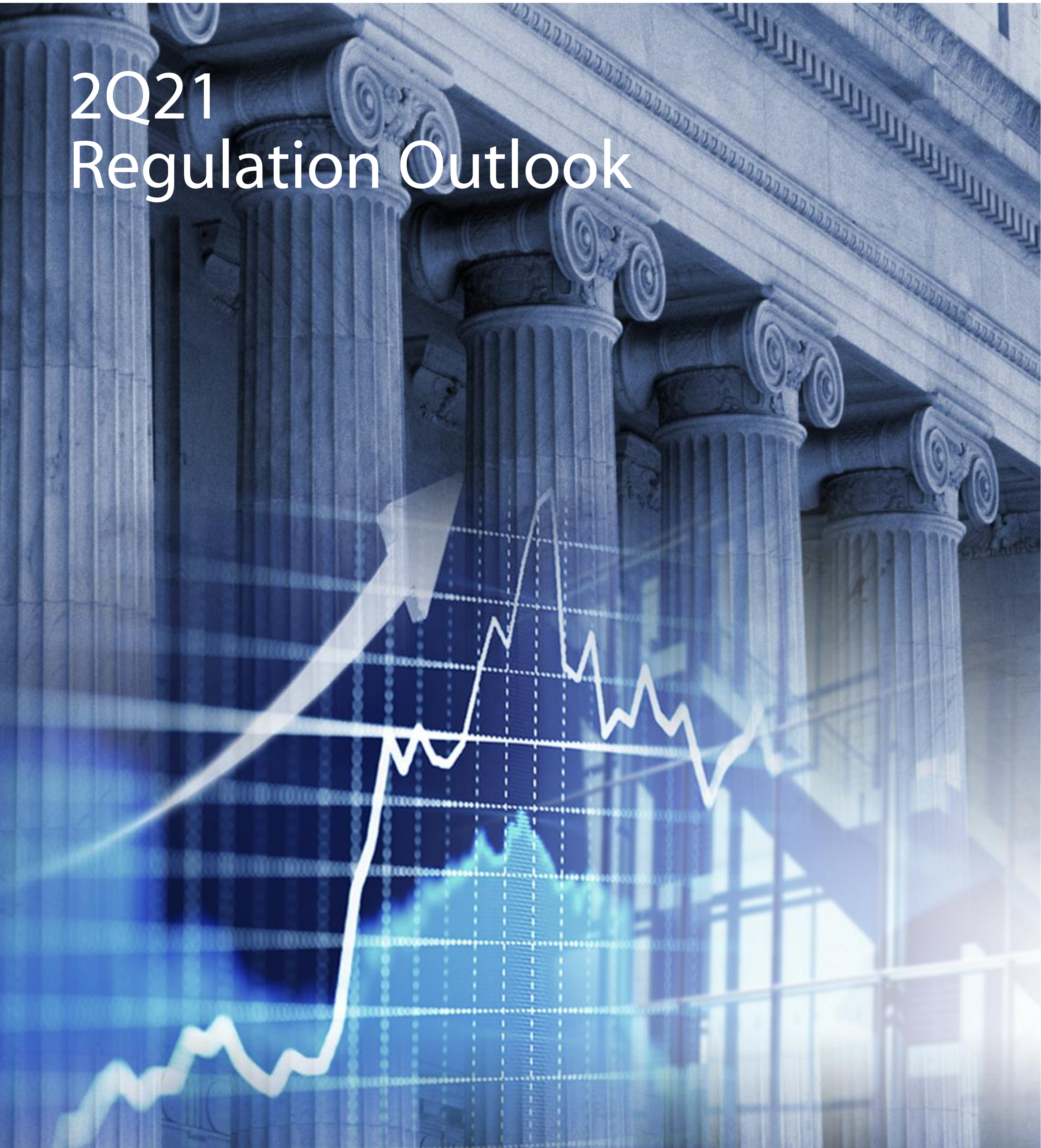

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Table of contents

Executive summary 4

Regulatory projections 6

Relevant publications 10

Other publications of interest 35

Management Solutions' Alert System on Regulation 56

Executive Summary

In the second quarter of 2021, climate risk is one of the main protagonists in the publications of the main organisations at all levels (global, European and local). Also noteworthy is the publication of the TRIM results by the ECB

Global publications

- The BCBS has published the **Report on Climate-related risk drivers and their transmission channe**l and the **Report on Climate-related financial risks – measurement methodologies** It analyses climate-related risk factors that can originate in and affect the financial sector and provides an overview of issues related to methodologies and measurement of climate-related financial risks.

- The NGFS has published the **Climate scenarios for forward looking climate risks assessments** with a new set of climate scenarios which provide a framework to assess and manage the future financial and economic risks that changes to our climate might bring.

European publications

- For its part, the ECB has published the Results of its targeted review of Internal Models (TRIM). This report is based on the final outputs of TRIM and contains a summary of the project's key activities.

- The EC has published the EU **Taxonomy Climate Delegated Act** which support sustainable investment. Furthermore, the EC has published a **proposal for a Corporate Sustainability Reporting Directive** which will allow financial firms, investors and the broader public to use comparable and reliable sustainability information.

- The SRB has published the **Guidance on liquidity and funding in resolution** which focuses on the estimation of liquidity needs, and aims to enhancing banks' resolvability and preparedness for a potential resolution.

European publications (continuation)

- The EIOPA has launched the 2021 stress test exercise which aims to assess the resilience of the participants to the adverse scenarios by a capital and liquidity perspective in order to provide supervisors with information on whether these insurers are able to withstand severe but plausible shocks.

Local publications

- In Spain, the General Courts have approved **Law 7/2021 on climate change and energy transition** with the aim of ensuring compliance with the objectives of the 2015 Paris Agreement and facilitating the decarbonization of the Spanish economy.

- In EEUU, the Fed has released the **2021 stress test results** which include information such as revenues, expenses, losses or capital ratios under adverse economic and financial conditions for each firm.

- The PRA has published the **Consultation Paper (CP) 7/21 on the identification of the nature, severity, and duration of an economic downturn for the purposes of Internal Ratings Based (IRB)** models, which sets out the Prudential Regulation Authority's (PRA) proposed approach to implementing new requirements relating to the specification of the nature, severity, and duration of an economic downturn in the internal ratings based (IRB) approach to credit risk.

Regulatory projections

At European Level, CRR amendments to the ECB's internal models guidance will be stackable and the EBA's ITS on supervisory reporting requirements for institutions has entered into force. In US The EDF/DFIC/OCC final rule on the net stable funding ratio will enter into force.

Regulatory projections

1. Next quarter

- **(Europe) 2021**: EIOPA's occupational retirement provisions 2019 stress test results will be published.
- **(Europe) July 2021**:
  - The amendments introduced by the CRR II on the ECB Guide which updates the risk-type-specific chapters of the Guide to the TRIM on internal models will apply.
  - The EIOPA Guidelines on ICT security and governance will apply.
  - It is expected that the EBA wide Stress Test results will be published.
- **(US) July 2021**:
  - FED and FDIC Final Rule on modifications to resolution plan requirements will be applicable for companies subject to category I, II and III standards.
  - Fed/FDIC/OCC Final Rule on NSFR: Liquidity Risk Measurement will apply.
- **(Europe) September 2021**: the EBA's ITS on specific reporting requirements for market risk will apply.

2. Next year

- **(Europe) October 2021:** the EBA is expected to submit the final draft RTS on Individual Portfolio Management.
- **(Global) November 2021**: the FSB will update the list of G-SIBs.
- **(Global) December 2021**: the BCBS new assessment methodology for G-SIBs will be applicable.
- **(UK) December 2021**: the PRA will next reassess firms' Systemic Risk Buffer rates.
- **(Europe) December 2021** the EIOPA will publish the result of the Insurance stress test.
- **(Europe) January 2022**:
  - The EBA GL on IRB parameters estimation will be applicable.
  - The EBA final RTS on an economic downturn as well as the GL for the estimation of LGD appropriate for an economic downturn will be applicable.
  - The ESAs provisions regarding product disclosure in periodic reports RTS on ESG disclosure standards will apply.
  - The EBA GL on CRM for institutions applying the IRB approach with own estimates of LGDs will apply.
  - The EC Delegated Regulation on EU classification system for green investments will apply.
- **(UK) January 2022**:
  - The PRA will require firms to comply with an end-state MREL.
  - The PRA PS 11/20 on credit risk: PD and LGD estimation will enter into force.
  - The BoE expects to run a second round on the Climate Biennial Exploratory Scenario.
- **(Europe) 2022**: the proposed new framework would be introduced in the 2022 EU-wide stress test.
- **(UK) May 2022**: The BoE expects to publish the CBES results.
- **(Europe) June 2022**: The EBA Final draft comprehensive ITS on institutions' Pillar 3 disclosures on ESG risks will apply.
- **(US) July 2022**: the Final Rule of the Fed and the FDIC on modifications to resolution plan requirements for covered companies that are triennial reduced filers will apply.
- **(Europe) July 2022**: It will be applicable the EP and Council Directive (EU) 2019/2162 and Regulation (EU) 2019/2160 on exposures in the form of covered bonds.

3. More than a year

- **(Europe) December 2022**:
    - The EBA will issue an impact assessment of MREL on banks' profitability.
    - The EBA is expected to applicate the ammendment on the ITS of Supervisory Reporting.
- **(Global) January 2023**:
    - The revised SA for credit risk, the revised IRB framework, the revised CVA framework, the revised operational and market risk framework published in Basel III and the standard on the minimum capital requirements for market risk by the BCBS will be implemented. Moreover, the LR framework using the revised exposure definition and the G-SIB buffer will be applicable.
    - Most of the new disclosure requirements of the BCBS Pillar III updated framework will have to be implemented.
    - The BCBS technical amendment on the capital treatment of securitisations of NPLs will enter into force.
    - The amendments to IFRS 17 proposed by the IASB will enter into force.
    - The ESAs Final Report on RTS on the content, methodologies and presentation of disclosures under SFDR will apply.
    - The ESAs Final Report on the draft ITS under the FICOD on reporting templates for intra-group transactions and risk concentration.
- **(Europe) January 2024**:
    - SRB's deadline of meeting external and internal MREL, including subordination requirements.
    - EBA Guidelines on Resolvability will apply.
- **(Global) January 2028**: an output floor of 72.5% of RWA in the SA approach will be applicable according to the Basel III reform of the BCBS.

Quarterly publications

Summary of outstanding publications of this quarter

Topic	Title	Date	Page
	Basel Committee on Banking Supervision		
Climate Risks	• Climate-related risk drivers and their transmission channel • Climate-related risk measurement methodologies	20/04/2021	10
	Network for Greening the Financial System		
Climate Scenarios	• Climate scenarios for forward looking climate risks assessment	10/06/2021	11
	International Accounting Standards Board		
Management Comentary	• Exposure Draft Management Commentary	01/06/2021	12
	Single Resolution Board		
Liquidity	• Guidance on liquidity and funding in resolution	06/05/2021	13
	European Commission		
Susteinability	• EU Taxonomy Climate Delegated Act • Proposal for a Corporate Sustainability Reporting Directive (CSRD) • Amending Delegated Acts on sustainability preferences, fiduciary duties and product governance	27/04/2021	14
	European Central Bank		
TRIM	• Results of its targeted review of internal models (TRIM)	29/01/2021	16
Assessments	• Draft Guide to fit and proper assessments	17/06/2021	17
	European Securities and Markets Authority		
MiFID II/MiFIR	• Report on the review of transaction and reference data reporting obligations	09/04/2021	18
	European Insurance and Occupational Pensions Authority		
Insurance Stress Test	• 2021 insurance stress test	17/05/2021	19
	European Banking Authority		
Climate Risks	• EU-wide pilot exercise on climate risk	24/05/2021	20
IRRBB	• Consultation Paper on draft ITS on IRRBB disclosure	01/06/2021	21
Crowdfunding	• Consultation paper on draft RTS on Individual Portfolio Management of loans offered by crowdfunding service providers	08/06/2021	22
Compliance	• Study of the cost of compliance with supervisory reporting requirement	10/06/2021	23
ESG Risk	• Report on management and supervision of ESG risks for credit institutions and investment firms	25/06/2021	24
Securisation	• Consultation on amendments to reporting on securitisation, asset encumbrance and G-SIIs	28/06/2021	25
Additional Tier 1	• Updates on the monitoring of Additional Tier 1 instruments • Consultation to amend technical standards on credit risk adjustments	29/06/2021	26

Tema	Título	Fecha	Página
	Bank of Spain		
Resolvability	• Proyecto de Circular por la que se modifican las Circulares a entidades de crédito y a establecimientos financieros sobre normas de información financiera pública y reservada, y modelos de estados financieros	29/06/2021	28
	General Courts of Spain		
Cambio Climático	• Ley 7/2021 de cambio climático y transición energética	21/05/2021	29
	Prudential Regulation Authority		
Cambio Climático	• Consultation Paper (CP) 7/21 on Credit risk	09/04/2021	30
Business Plan	• Business Plan 2021/22	25/05/2021	31
	Banco of England		
Riesgos Climáticos	• Key elements of the 2021 Biennial Exploratory Scenario: Financial risks from climate change	10/06/2021	32
	Federal Reserve		
Stress Test	• 2021 Supervisory Stress Test Results	25/06/2021	33

20/04/2021

- **Climate-related risk drivers and their transmission cannel**
- **Climate-related risk measurement methodologies**

1. Context

The BCBS has published the **Report on Climate-related risk drivers and their transmission channel**. This report explores how climate-related risk drivers, including physical risks and transition risks, can arise and affect both banks and the banking system via micro- and macroeconomic transmission channels. The BSBC has also published the **Report on Climate-related financial risks – measurement methodologies**. This report provides an overview of conceptual issues related to climate-related financial risk measurement and methodologies, as well as practical implementation by banks and banking supervisors.

2. Main points

<u>Climate-related risk drivers and their transmission channels</u>

- **Climate-related risk drivers**.
  - <u>Physical risk drivers</u>. The Report highlights as drivers of physical risk the changes that impact economies. They can be categorised as acute risks, which are related to extreme weather events (e.g floods, wildfires and storms, including hurricanes, cyclones and typhoons as well as extreme precipitation), or chronic risks associated with gradual shifts in climate (e.g rising sea levels, rising average temperatures, and ocean acidification).
  - <u>Transition risk drivers</u>. The Report highlights as transition risk drivers the societal changes arising from a transition to a low-carbon economy. They can arise through: i) changes in public sector policies; ii) innovation; and iii) changes in the affordability of existing technologies or investor and consumer sentiment towards a greener environment.
- **Transmission channels**. Transmission channels are the causal chains linking climate risk drivers to the financial risks faced by banks and the banking sector. Transmission channels can be classified as Microeconomic and Macroeconomic. The first ones include the causal chains by which climate risk drivers affect banks' individual counterparties, potentially resulting in climate-related financial risk to banks and to the financial system. The macroeconomic transmission channels are the mechanisms by which climate risk drivers affect macroeconomic factors and how these, may have an impact on banks through an effect on the economy in which banks operate.
- **Geographical heterogeneity, amplifiers and mitigants**. The effects of climate change may be amplified by interactions between different climate risk drivers, between different transmission channels and the climate-related aspects of amplification arising from the financial system itself.
  - <u>Geographical heterogeneity</u> is driven by several factors: i) differences in the likelihood and severity of climate risk drivers themselves; ii) structural differences in economies; and iii) markets that affect the relative importance of various transmission channels.
  - <u>The impacts of the climate-related financial risks can be amplified in a number of ways</u>. This includes through interactions and interdependencies between climate risk drivers, through feedback of financial risks, and through the combined impact of risk drivers transmitted through more than one channel.
  - <u>Financial mitigants</u> can moderate or offset banks' exposure to climate-related financial risks through both proactive and reactive actions.

<u>Climate-related financial risks – measurement methodologies</u>

- **Methodological considerations**. It reviews the methodological concepts that financial institutions and supervisors face when conducting exposure mapping and measurement of climate-related financial risks:
  - <u>Conceptual considerations</u>.
  - <u>Types of data needed</u>.
  - <u>The role and characteristics of a microprudential climate risk classification</u>.
  - <u>Conceptual modelling and risk measurement approaches</u>.
  - <u>Characteristics of scenario analysis and stress testing methodologies</u>.
- **Measurement methodologies of climate-related financial risks**. It presents measurement methodologies of climate-related financial risks being used or developed by either banks or supervisors. It first discusses methodologies used to map and measure exposure to climate-related financial risks and then elaborates on the methodologies used to quantify climate-related financial risks, scenario analysis, stress testing and sensitivity analysis. Measurement methodologies are discussed separately for banks, supervisors and third parties, though these respective approaches share many similarities and overlaps. However, they may differ in terms of objectives.
- **Areas for future analytical exploration**. It discusses some of the more prominent areas for future analytical exploration and development outlined in this report, for both risk exposure monitoring and forward-looking assessment methodologies. Particular attention is given to three key elements: i) challenges in the conceptual sphere, ii) data availability; and iii) modelling complexity.

10/06/2021
Climate scenarios for forward looking climate risks assessment

1. Context

On June 2020, the NGFS published a Guide to climate scenario analysis for central banks and supervisors which provides practical advice on using scenario analysis to assess climate risks to the economy and financial system. The scenario analysis can be used to stress test financial firms and the financial system and to explore structural changes to the economy.

In this context, the NGFS has published a new **set of climate scenarios** which provide a framework to assess and manage the future financial and economic risks that changes to our climate might bring.

Main points

- **Climate scenarios**. The NGFS explore a set of six scenarios:
  - Net Zero 2050. Limits global warming to 1.5°C through stringent climate policies and innovation, reaching global net zero CO_2 emissions around 2050.
  - Below 2°C. Gradually increases the stringency of climate policies, giving a 67% chance of limiting global warming to below 2°C.
  - Divergent Net Zero. Reaches net zero around 2050 but with higher costs due to divergent policies introduced across sectors leading to a quicker phase out of oil use.
  - Delayed transition. Assumes annual emissions do not decrease until 2030. Strong policies are needed to limit warming to below 2°C.
  - Nationally Determined Contributions (NDCs). Includes all pledged policies even if not yet implemented.
  Current Policies. Assumes that only currently implemented policies are preserved, leading to high physical risks.
- **Transition risks, physical risk and economic impacts indicators**. Scenarios are characterised by their overall level of transition and physical risk.
  - Transition risks. Eliminating most greenhouse gas emissions will affect all sectors of the economy, and gives rise to transition risks for the economy and financial system. key indicators of the level of transition risk are the shadow emissions price, government policy intensity and changes in technology and consumer preferences.
  - Physical risks. These risks affect the economy through: i) temperature rise; ii) precipitation; iii) heat and labour productivity; iv) crop yields and food security; v) gross domestic product (GDP) loss estimates from chronic risks; vi) exposure to severe weather; and vii) direct losses from tropical cyclones.
  - Economic impacts. The NGFS scenarios capture the economic impacts from transition risk and physical risk. Transition risks are captured through these main channels: i) energy; ii) policy; and iii) uncertainty. While there is a high degree of uncertainty around the impacts from physical climate risk on the economy.

3. Next steps

- The NGFS will continue to develop the scenarios to make them more comprehensive, with the aim to be as relevant as possible for economic and financial analysis.

01/06/2021
Exposure Draft Management Commentary

International Accounting Standards Committee Foundation®

1. Context

The IASB published in 2010 the Management Commentary which is a report that complements an entity's financial statements. It provides management's insights into factors that have affected the entity's financial performance and financial position and factors that could affect the entity's ability to create value and generate cash flows in the future. Since 2010, the information needs of investors and creditors have evolved.

In this context, the IASB has published a **proposed framework for companies preparing management commentaries** which would enable entities to bring together in one place the information investors need to assess an entity's long-term prospects.

2. Main points

- **Management commentary**. The following areas of content are included in the management commentary proposed:
    - Business model. Management commentary shall provide information that enables investors and creditors to understand how the entity's business model creates value and generates cash flows. Also, among the metrics that management uses to monitor key features the scale of the entity's operations, such as its production capacity, stands out.
    - Strategy. Management commentary shall provide information that enables investors and creditors to understand management's strategy for sustaining and developing the entity's business model. Among the metrics management uses to monitor key aspects of that strategy, it stands out the progress towards long-term aims.
    - Resources and relationships. Management commentary shall provide information that enables investors and creditors to understand the resources and relationships on which the entity's business model. Among the metrics the quantity of a resource used during the reporting period stands out.
    - Risks. Management commentary shall provide information that enables investors and creditors to understand the risks of events or circumstances that could disrupt: i) the entity's business model; ii) the management's strategy for sustaining or developing that model; and iii) the entity's resources or relationships. Among the metrics, the entity's exposure to a risk stands out.
    - External environment. Management commentary shall provide information that enables investors and creditors to understand how the entity's external environment has affected the entity's business model and the entity's resources or relationships. Among the metrics, the factors and trends such as, external market share statistics stands out.
    - Financial performance and financial position. Management commentary shall focus on key aspects of the entity's financial performance and financial position. Among the metrics, amounts presented in the entity's financial statements, such as line items, totals and subtotals stands out.

3. Next steps

- Comments to this proposal can be sent before **23 November 2021**.

06/05/2021
Guidance on liquidity and funding in resolution

1. Context

In April 2020, the SRB published the document Expectations for Banks that sets out the capabilities the SRB expects banks to demonstrate in order to show that they are resolvable. As outlined in this document, Banks are expected to develop methodologies to estimate ex-ante the liquidity needs for the implementation of the resolution strategy. Also, banks are expected to be able to measure, report and forecast their liquidity position, and be able to identify and mobilise assets that could be used as collateral to obtain liquidity in resolution anticipating any legal, regulatory and operational obstacles.

In this context, the SRB has published the **Guidance on liquidity and funding in resolution** which focuses on the estimation of liquidity needs, and aims to enhancing banks' resolvability and preparedness for a potential resolution.

2. Main points

- **Identification of key liquidity entities and main liquidity flows in resolution**. Banks are expected to identify their key liquidity entities (KLEs) in resolution and to explain why these entities are expected to be relevant for liquidity in resolution, or not. Banks should ensure that the scope of KLEs analysis comprises: i) all relevant legal entities within the meaning of the liability data reporting (LDR) guidance; and ii) other entities or organisational forms that could be relevant for liquidity in resolution, such as significant branches especially outside of the Euro Area, insurance and re-insurance companies. Based on the identified KLEs, banks are expected to provide an analysis/map of the liquidity and funding set-up for the group in resolution.
- **key drivers of the liquidity position in resolution**. Banks are expected to provide a list of key drivers of the liquidity position in resolution at the level of the resolution group and at the level of the main KLEs, under different time horizons. The objective of this assessment is to perform a qualitative identification of the drivers of liquidity in resolution, where banks should describe the liquidity dynamics that could arise in resolution.
- **Methodologies for the estimation of the liquidity position in resolution**. Banks are expected to develop methodologies to estimate ex ante, under different assumptions, the liquidity and funding needed for the implementation of the resolution strategy, for that banks are expected to develop: i) impact of the resolution strategy and of the resolution tools; ii) counterparties' behaviour in resolution; iii) financial obligations related to access to critical Financial Market Infrastructure (FMIs); iv) intraday liquidity needs; v) financial obligations related to operational continuity; vi) impact of rating agencies' actions; vii) liquidity value of different asset classes; viii) legal, regulatory and operational obstacles to the transferability of liquidity between KLEs; ix) legal and operational obstacles to pledge available collateral in a timely manner; and x) contractual suspension or termination that counterparties may exercise.

27/04/2021

- **EU Taxonomy Climate Delegated Act**
- **Proposal for a Corporate Sustainability Reporting Directive (CSRD)**
- **Amending Delegated Acts on sustainability preferences, fiduciary duties and product governance.**

EUROPEAN COMMISSION

1. Context

The EC published in 2019 the European Green Deal, which sets out a series of climate and energy targets for 2030, and contains a commitment for Europe to become climate neutral by 2050. Furthermore, in 2020 the EC published the Taxonomy Regulation which provides uniform criteria for companies and investors to determine which economic activities can be considered environmentally sustainable. The Taxonomy creates a common language that investors can use everywhere when investing in projects and economic activities that have a substantial positive impact on the climate and the environment. Furthermore, this Regulation requires financial and non-financial entities covered by the Non-Financial Reporting Directive (NFRD) to include information in their non-financial reporting statements on how, and to what extent, their activities are associated with environmentally sustainable economic activities.

In this context, the EC has published the **EU Taxonomy Climate Delegated Act** which support sustainable investment by making it clearer which economic activities most contribute to meeting the EU's environmental objectives. Furthermore, the EC has published a proposal for a **Corporate Sustainability Reporting Directive** which will allow financial firms, investors and the broader public to use comparable and reliable sustainability information. Finally, it has published six amending **Delegated Acts on fiduciary duties on fiduciary duties, investment and insurance advice**, will ensure that financial firms, include sustainability in their procedures and their investment advice to clients.

2. Main points

<u>EU Taxonomy Climate Delegated Act</u>

- **Conditions and climate criteria**. This Delegated Regulation contains the technical screening criteria for determining the conditions under which an economic activity qualifies to climate change mitigation. These criteria should ensure that the economic activity makes a positive impact on the EU's climate objective or reduces negative impact on this objective. In this regard, the EC outlines the criteria that should be taken into account within the main sectors with the greatest potential for achieving these climate objectives:
    - <u>Forest sector</u>. Technical screening criteria for forest activities should be complemented, reviewed to take better into account biodiversity friendly practices.
    - <u>Manufacturing sector</u>. The criteria for this sector should be specified both for manufacturing activities associated with the highest levels of greenhouse gas emissions and for manufacturing of low-carbon products and technologies.
    - <u>Energy sector</u>. The technical screening criteria for this sector should signal the decarbonisation path for the electricity or heat generation activities to ensure that the greenhouse gas emissions are reduced or avoided.
    - <u>Building sector</u>. The criteria should therefore be laid down for the construction of new buildings, for building renovation, installation of different energy efficiency equipment, on-site renewables, provision of energy services, and for the acquisition and ownership of buildings.
    - <u>Information and communication sector</u>. The criteria should be laid down for data processing and hosting activities that emit high volumes of greenhouse gas, and for data-driven solutions that enable reductions in greenhouse gas emissions in other sectors.
    - <u>Research, development and innovation sector</u>. The criteria for these activities should focus on the potential of processes and technologies for reducing greenhouse gas emissions.
    - <u>Other economic activities</u>. The criteria for determining whether an economic activity contributes substantially to climate change adaptation should be laid down for engineering activities and related technical consultancy dedicated to adaptation to climate change, research, development and innovation, non-life insurance consisting in underwriting of climate-related perils, and reinsurance.
- **Significant environmental harm**. The EC determines the technical screening criteria for determining whether an economic activity causes no significant harm to one or more of the environmental objectives:
    - <u>Use and protection of water and marine resources</u>. The criteria should aim at avoiding that activities are detrimental to the status of bodies of water or the status of marine waters.
    - <u>Pollution prevention and control</u>. The criteria should reflect sector specificities to address the relevant sources and types of pollution into air, water or land.
    - <u>Protection and restoration of biodiversity and ecosystems</u>. The criteria should be specified for all activities that can pose risks to the status or condition of habitats, species or ecosystems and should require that environmental impact assessments or appropriate assessments are undertaken and the conclusions achieved from such assessments are implemented.

2. Main points (cont.)

Proposal for a Corporate Sustainability Reporting Directive (CSRD)

- **Amendments to the Directive on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings**.
    - It modifies the personal scope of the reporting requirements, extending their application to all large companies and all companies with securities listed on EU regulated markets, except micro-companies. In order to alleviate the reporting burden for listed small and medium-sized enterprises, they are to start reporting in accordance with this Directive 3 years after its entry into application.
    - It specifies in greater detail the information that companies should disclose.
    - It specifies that companies should report qualitative and quantitative information, forward-looking and retrospective information,
    - requires the statutory auditor to perform a limited assurance engagement on a company's sustainability reporting, including on the compliance of the sustainability reporting with the reporting standards.
- **Amendments to Directive on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market**. It introduces the requirement to include sustainability reporting in the management report. Furthermore, empower the Commission to adopt measures to establish a mechanism for the determination of the equivalence of sustainability reporting standards used by non-EU issuers.
- **Amendments to Directive on statutory audits of annual accounts and consolidated accounts**.To ensure that all information is published as part of companies' management reports, and disclosed in a digital, machine-readable format.

Amending Delegated Acts on sustainability preferences, fiduciary duties and product governance

- **The changes introduces in the three áreas are highlighted**.
    - Investment and insurance advice. When an adviser assesses a client's suitability for an investment, they now need to discuss the client's sustainability preferences.
    - Fiduciary duties. Amendments clarify the obligations of a financial firm when assessing its sustainability risks, such as the impact of floods on the value of investments.
    - Investment and insurance product oversight and governance. Manufacturers of financial products and financial advisers will need to consider sustainability factors when designing their financial products.

22/04/2021
Results of its targeted review of internal models (TRIM)

1. Context

The ECB, in cooperation with the National Competent Authorities (NCAs) launched in 2016 the targeted review of Internal Models (TRIM). The TRIM aimed to assess whether the Pillar I internal models used by significant institutions (SIs) within the Single Supervisory Mechanism (SSM) are appropriate in the light of the applicable regulatory requirements and whether their results are reliable and comparable.

In this context, the ECB has published the **Results of its targeted review of Internal Models (TRIM)**. This report is based on the final outputs of TRIM and contains a summary of the project's key activities.

2. Main points

Observations and findings. The following main weaknesses were identified for the different types of risk:

- **Credit risk models related to retail and small and medium enterprise (SME) portfolios**. Institutions generally have the capabilities to build adequate IRB models. More specifically, for the probability of default (PD) parameter, more than 70% of investigations ended without severe findings on the calculation of one-year default rates and the long-run average default rate (LRA DR).
- **Credit risk models related to low-default portfolios**. They were identified findings in relation to the rating assignment process and risk quantification. Most deficiencies concern the calibration methodology and the calculation of long-run average default rates. One of the reasons for these deficiencies is that there are considerably fewer internal observations available for this type of portfolio (when compared with retail and SME portfolios), which means that institutions have to make greater use of other observations (e.g. external default data) in order to calculate default rates and, subsequently, PDs.
- **Market risk**. The greatest number of findings related to the value-at-risk (VaR) and stressed value-at-risk (sVaR) methodology, regulatory back-testing and the scope of the internal models approach (IMA). The majority of finding in relation to VaR and sVaR concerned shortcomings in data cleansing processes, cases where risk factors were missing or inadequately modelled and inadequate pricing methods for particular products in the VaR model.
- **Counterparty credit risk**. validation and governance were the topics with the highest number of findings. There were also findings on specific modelling topics such as trade coverage, the margin period of risk, collateral, initial margin, and risk factors and calibration. In relation to validation, some weaknesses were related to back-testing owing to inappropriate coverage or lack of follow-up action.

Outcomes. Overall, the outcomes of the TRIM confirmed that banks can continue to use internal models to calculate risk-weighted assets. However, limitations were needed to ensure a level of own funds as well as certain weaknesses to be addressed. In the future, banks will need to continue to invest in high-quality models. For that purpose, it is particularly important that banks further strengthen their internal validation function.

EUROPEAN CENTRAL BANK
EUROSYSTEM

17/06/2021
Draft Guide to fit and proper assessments

1. Context

Since November 2014 the ECB has been responsible for taking decisions on the appointment of all members of the management bodies of the significant credit institutions under its direct supervision. In this regard, the ECB published a Guide to fit and proper assessment in May 2017, and its revised version one year later with the aim to explain in greater detail the policy stances, supervisory practices and processes applied by the ECB when assessing the suitability of members of the management bodies of significant credit institutions.

In this context, the ECB has launched a public consultation on the revised version of its **Guide to fit and proper assessments**. The revised Guide introduces definitions, changes to the criteria (both qualitative and qualitative) and to the calculation of total remuneration. In addition, introduces supervisory expectations on climate and environment-related risks and explains the ECB's approach to diversity.

2. Main points

- **Scope**. This Guide covers fit and proper assessments of members of the management body, both in their management function (executives) and supervisory function (nonexecutives) of all significant institutions; and in the case of licensing or qualifying holdings.
- **Assessment criteria**. The fitness and propriety of members of the management body is assessed against 5 criteria:
  - Experience. It is assessed with reference to the number of years of experience and the level of managerial experience. The assessment uses information on previous positions, taking into account the length of service, size of the entity, responsibilities held, and number of subordinates among others.
  - Reputation. An appointee is considered to be of good repute if there are no objective and demonstrable grounds to suggest otherwise. Nonetheless, relevant criminal or administrative records are taken into account for the assessment of good repute, honesty and integrity.
  - Conflicts of interest and independence of mind. The supervised entity and the appointee should notify the Competent Authority (CA) of any conflicts of interest. Furthermore, the CA will assess the materiality of the conflict of interest. Conflicts of interest can be: i) personal; ii) business, professional or commercial; iii) financial; and iv) political.
  - Time commitment. The institution should provide all relevant and necessary details that enable the CA to assess whether the appointee has sufficient time to commit to the mandate, to do so, they must provide a minimum set of information.
  - Collective suitability. The institution must carry out an assessment of the collective suitability of the management body. An effective collective suitability will include an appropriate understanding for example of the business of the credit institution, climate-related and environmental risk or gender diversity.
- **Fit and proper-related authorisations**. CAs may authorise members of the management body to hold one additional non-executive directorship. Holding such an additional directorship should be the exception rather than the rule.
- **Situations that trigger a fit and proper assessment other than new initial appointments**. Make reference to changes of role, renewals, departures from office and reassessments.
- **Interviews**. Interviews are one of the tools used in the information gathering phase. In this regard:
  - Interviews are mandatory in the case of new appointments for CEO and Chairman positions at stand-alone banks and the top banks of groups, and in all other cases interviews are optional.
  - An informative interview covers all elements of suitability and if there are still concerns after this interview, a second specific interview focusing on the facts that gave rise to the concerns may be conducted.
- **Notifications, decisions and ancillary provisions**. The ECB invites institutions to provide the ECB with their suitability assessments for executive members of the management body before making appointments. Furthermore, the ECB has the power to include recommendations, conditions and/or obligations in relation to an appointee.

3. Next steps

Comments to this consultation can be submitted by **2 August 2021**.

09/04/2021
Report on the review of transaction and reference data reporting obligations

1. Context

MiFIR requires the European Commission (EC), after consulting ESMA, to present a report to the European Parliament and the Council to assess the functioning of the transaction reporting regime. In September 2020, the ESMA published a Consultation Paper (CP) on the review report on the obligations to report transactions and reference data.

In this context, the ESMA has published the **Final Report on the review of transaction and reference data reporting obligations** which contains recommendations and possible legislative amendments to MiFID II/MiFIR with a view to simplifying the current reporting regimes whilst ensuring quality and usability of the reported data.

2. Main points

- **Recommendations on entities subject to transaction reporting and arrangements for sharing reports**.
    - Alternative Investment Fund Managers (AIFMD) and Undertakings for Collective Investment in Transferable Securities (UCITS) firms. In order to ensure data completeness for market abuse investigations and to ensure a level playing field for market participants, UCITS management companies and AIFMs providing one or more MiFID services to third parties should be subject to transaction reporting.
    - Branches of European Economic Area (EEA) Entities. ESMA's intention is that firms report transactions, in which a branch is involved, to the home NCA only.
    - Arrangements for sharing reports. ESMA considers that provisions which refers to the arrangements for sharing reports should be accompanied with a more general reference to the possibility for NCAs to share the information received.
- **Scope of instruments subject to reporting obligations**.
    - Concept of Traded on a Trading Venue (ToTV).This concept seems to be self-explanatory for instruments that are centrally issued and that are fully standardised, such as shares, but it is less straightforward for OTC derivatives. As a result, ESMA considers that its proposal should be retained and a different criterion to define which OTC instruments should be brought into the scope of the relevant transparency and reporting obligations.
    - Scope of reference data: merging provisions of Market Abuse Regulation (MAR) into MiFIR.
- **Details to be reported**.
    - Trading Venue Transaction Identification. ESMA believes it would be beneficial to explore an alternative solution to the linking of SI transactions as well as transaction chains that limits the burden on the industry and on NCAs.
    - The identifiers to be used for parties. On client identifiers, ESMA confirms that investment firms are expected to provide details and decision maker pertaining to their own clients and the clients of any firm that would have transmitted an order for execution. On client categorisation, ESMA is of the view that the information is relevant to monitor the distribution of particularly complex financial instruments. Regarding the short sale indicator, ESMA considers that its proposal to remove it should be retained.
    - A designation to identify the computer algorithms and a short sale. ESMA retains its recommendation of keeping this data element.
    - Indicators for waivers, OTC post-trade deferrals, commodity derivatives, Buy – back programs. ESMA considers that the proposal to extend the obligation to transactions in non-equity instruments executed on an Systematic Internaliser (SI) should not be retained. Regarding the proposal on OTC post-trade indicator and the commodity derivative indicator, ESMA considers that it should be retained.
- **Interaction with the reporting obligations under EMIR**. ESMA considers that its proposals should be retained and some of the provisions on the obligation to report operations to the competent authority should be deleted.
- **Legal Entity Identifier (LEI) of the issuer of the financial instrument**. ESMA proposes that, market operators should not make financial instruments available for trading based on their own particular trading rules until they have obtained all relevant instruments' reference data (including the issuer's LEI).

3. Next steps

- This report is submitted to the EC and is expected to feed into any review of the transaction reporting regime in MiFIR.

11/05/2021
2021 insurance stress test

1. Context

The EIOPA started to run Insurance Stress Test in 2011. Since then, further stress test have been conducted in 2014, 2016 and 2018 with the overall objective of assessing the resilience of the European insurance industry against adverse market developments. EIOPA tailors the goal, scope and scenarios of each exercise according to the foreseen evolutions in market conditions and their potential negative implications for insurers.

In this context, the EIOPA has launched the **2021 stress test exercise** which aims to assess the resilience of the participants to the adverse scenarios by a capital and liquidity perspective in order to provide supervisors with information on whether these insurers are able to withstand severe but plausible shocks.

2. Main points

- **Sample**. The stress test will be conducted on a target sample defined in cooperation with the National Competent Authorities (NCAs) encompasses 44 undertakings covering 75% of the EU-wide market based on total assets in the Solvency II.
- **Methodology**. The reference date is 31 December 2020 and the principal components of the methodology are:
    - Capital component. The capital component relies on the Solvency II framework as common ground for the assessment of the resilience of the insurance industry against adverse developments.
    - Liquidity component. The methodological approach to the assessment of the baseline and post stress liquidity position is based on a hybrid stocks / flows assessment of the liquidity sources and liquidity needs. Liquid assets will be estimated both in the baseline and in the post -stress position via liquidity haircuts automatically applied to the different asset classes.
    - Simplifications and approximations. In the recalculation of the post stress balance sheet and liquidity position, simplifications/approximations can be allowed within certain limits and provisions. The use of simplifications shall be implemented after a discussion with the group supervisor.
    - Management actions. The post-stress capital and liquidity positions should be calculated under two different assumptions: i) the fixed balance sheet (without reactive management actions); and ii) the constrained balance sheet (with reactive management actions).
- **Scenario, shocks and their application**. The exercise encompasses a set of insurance shocks:
    - Market shocks. These shocks are assumed to represent one-off, instantaneous and simultaneous shifts in asset prices relative to their end-2020 levels. The market stress parameters refer to the following risk drivers: i) swap rates; ii) sovereign bond yields; iii) corporate bond and covered bond yields; iv) equity prices; v) real estate prices; vi) residential mortgage-backed securities yields; and vii) other asset prices.
    - Insurance specific shocks. These insurance shocks are applied to specific business lines: i) mass lapse chock; ii) mortality shock; iii) pandemic morbidity shock and increase of non-life cost of claims; iv) shock to reinsurance in-flows; and v) reduction in written premia.

3. Next steps

- The deadline for the submission of the results to the National Authorities is the **13 August 2021**.
- The outcome of the 2021 stress test will be published in **December 2021**.

24/05/2021
EU-wide pilot exercise on climate risk

1. Context

In 2020 the Taxonomy Regulation was published. It provides uniform criteria for companies and investors to determine which economic activities can be considered environmentally sustainable. Additionally, it establishes a common language that these investors will use when investing in projects and economic activities that have a positive impact on the climate and the environment. On the other hand, the revised CRR/CRD package gives the EBA the mandate to develop qualitative and quantitative criteria to assess the impact of ESG risks.

In this context, the EBA launched in 2020 a pilot exercise on climate risk focused on the identification and quantification of exposures from a climate perspective on transition risk. Following the exercise, the EBA has published the **results of EU-wide pilot exercise**. Its main objective is to explore data and methodological challenges to categorise exposures on the basis of selected climate risk factors.

2. Main points

- **Scope, sample and data coverage**. The EBA pilot exercise on climate risk is the first EU-wide exercise for the banking sector. This exercise is based on a sample of 29 voluntary participating banks that have reported information aligned with the definitions used in supervisory reporting. The data analysed covers large corporate exposures to non-financial obligors domiciled in EU countries under both the standardised approach (SA) and the internal ratings based (IRB) approach.
- **Portfolio classification approaches**. Two classification methods have been applied:
  - A sector-based classification approach. The exposures have been classified into the so-called Climate Policy Relevant Sectors (CPRS) based on the sector of the counterparty. This classification CPRS consists of eight categories: i) fossil fuel, ii) utility; iii) energy-intensive; iv) buildings; v) transportation; vi) agriculture; vii) finance; and viii) others.
  - A greenhouse gas (GHG) emission-based classification approach. To complement the CPRS analysis, an alternative classification approach, based on the GHG emission intensity of the obligor is applied.
- **Main results**. More than half of banks' exposures are allocated to sectors that might be sensitive to transition risk, and are concentrated in some specific sectors. The parallel analysis, based on GHG, reveals that 35% of the total exposures submitted in the exercise correspond to obligors with GHG emissions intensity classified as medium/high, high or very high. In addition, the scenario analysis shows that the impact of climate-related risks across banks has different magnitudes and is concentrated in some particular sectors.

3. Next steps

- The main findings of the pilot exercise will form the basis of a broader discussion on how to design a climate risk stress test exercise for the EU banking sector.

01/06/2021
Consultation Paper on draft ITS on IRRBB disclosure

1. Context

The Capital Requirements Regulation (CRR) requires institutions to disclose, as from 28 June 2021, quantitative and qualitative information on the risks arising from potential changes in interest rates that affect both the economic value of equity and the net interest income of their non-trading book activities. In addition, this Regulation contains a mandate to the EBA to develop draft implementing technical standards (ITS) specifying uniform disclosure formats, and associated instructions in accordance with which the disclosures requirements.

In this context, the EBA has published a **Consultation Paper on draft Implementing Technical Standards (ITS) on interest rate risk on positions not held in the trading book (IRRBB) disclosure**, which seeks to ensure stakeholders are informed about institutions' interest rate risks in the non-trading book and provide comparable disclosures that should help institutions comply with the requirements laid down in the CRR.

2. Main points

- **Disclosure of information on IRRBB**. These ITS include a disclosure table and a disclosure template:
  - The table IRRBBA on qualitative information on interest rate risks of non-trading book activities based on institutions' internal measurement systems (IMS) methodology. This table provides information on a bank's IRRBB risk management objective and policy. Specifically, this table enables users of that information: i) to monitor the sensitivity of the institution's economic value of equity and net interest income to changes in interest rates; ii) to understand the key assumptions used in the calculation of the IRRBB exposure values and produced by the institution's internal measurement system; and iii) to have an insight into the institution's overall IRRBB objective and management.
  - The template IRRBB on Interest rate risks of non-trading book activities provides quantitative IRRBB information including the impact of interest rate supervisory shocks scenarios on their change in economic value of equity and net interest income, calculated on the basis of a set of common modelling and parametric assumptions.

3. Next steps

- Comments to this Consultation Paper can be sent before **30 August 2021**.

08/06/2021

Consultation paper on draft RTS on Individual Portfolio Management of loans offered by crowdfunding service providers

1. Context

On October 2020, the European Parliament (EP) and the Council published Regulation on European crowdfunding service provider for business (ECSPR). This Regulation contains a mandate to the EBA to submit draft Regulatory Technical Standards (RTS) to specify some information that shall be provided to investors in order to be appropriately informed about the risks they are exposed to when they invest in individual portfolio management of loans.

In this context, the EBA has published a consultation paper on **draft RTS on Individual Portfolio Management of loans offered by crowdfunding** which specifies the information that crowdfunding service providers shall provide to investors in relation to the method to assess credit risk, and on each individual portfolio management of loans.

2. Main points

- **General provisions in terms of the quality of data to be disclosed**. Crowdfunding service providers shall ensure that the information provided to investors in relation to Individual portfolio management of loans is accurate, reliable and updated on continuous basis.
- **Information on the method to assess credit risk**. Crowdfunding service providers must undertake an adequate assessment of credit risk of the crowdfunding projects and the project owner at the moment the crowdfunding offer is made, and to base such credit risk assessment on sufficient information. The elements to be included in the method to assess credit risk are: i) the credit risk of individual projects selected for the investor's portfolio; ii) the credit risk of the investor's portfolio as a whole; iii) the credit risk of the project owners selected for the investor's portfolio.
- **Information to be provided on each individual portfolio**. The crowdfunding provider will need to disclose a very detailed set of information on the loans included in each individual portfolio, including: i) the weighted average annual interest rate on loans in a portfolio; ii) the distribution of loans according to risk category, in percentage and absolute numbers; iii) for every loan of which a portfolio is composed, key information, including at least an interest rate or other compensation to the investor; iv) for every loan of which a portfolio is composed, risk mitigation measures; v) any default on credit agreements by the project owner within the past five years; and vi) any fees paid in respect of the loan by the investor, the crowdfunding service provider or the project owner.
- **Information on the policies and procedures on contingency funds**. Where a crowdfunding service provider has established and operates a contingency fund for its activity related to the individual portfolio management of loans, it shall have in place adequate policies and procedures and organisational arrangements so to ensure that the contingency fund is managed prudently and can fulfill its objectives.

3. Next steps

- Comments to this consultation paper can be sent before **4 September 2021**.
- Following the consultation period, the EBA is expected to submit the final draft RTS to the EC in **October 2021**.

10/06/2021
Study of the cost of compliance with supervisory reporting requirement

1. Context

In 2020, the EBA conducted an in-depth analysis aimed at assessing the effectiveness of current reporting, including the measures targeting a containment of the reporting cost, and identifying further areas for proportionality in the reporting framework. This analysis was conducted following the mandate of the Capital Requirements Regulation (CRR) to the EBA to measure the costs that credit institutions incur when complying with the supervisory reporting requirements.

In this context, the EBA has published a **study of the cost of compliance with supervisory reporting requirement** in the European Economic Area (EEA) where the EBA has identified numerous recommendations collectively leading to a potential reduction of the banks' reporting costs by up to 15-24%.

2. Main points

- **Changes to the development process for the EBA reporting framework**.
  - Complexity of regulatory requirements. One of the key concerns regarding supervisory reporting requirements highlighted by the institutions was the complexity of reporting. The EBA recommendation is to signposting of overall regulatory requirements applicable to different proportionality categories of institutions.
  - Stability of supervisory reporting. Concerns regarding the frequent changes made to the reporting requirements were expressed by the institutions and so, the EBA's objective is to maintain stability and a better 'packaging' of changes in the overall regulatory framework.
  - Understanding of supervisory reporting. Several industry trade bodies raised the issue that the standards defining the reporting requirements, including the EBA Implementing Technical Standards (ITS) on supervisory reporting, leave too much room for interpretation. To address these concerns, the EBA will consider improving the way reporting requirements are presented for public consultation.
- **Changes to the design of EBA supervisory reporting requirements and reporting content**.
  - Reporting at individual and consolidated level. Institutions raised the issue of having to comply with reporting obligations simultaneously at the level of a single legal entity and at consolidated level considering all entities in the prudential, liquidity, resolution. To solve it, the EBA proposes to investigate the possibility of enabling simplified reporting also at consolidated level where compatible with the level of application of underlying legislation**.**
  - Reporting content. Institutions suggested changes on the design of the requirements and reporting content. The EBA gives different recommendations on core and supplementary reporting, reporting frequency, asset encumbrance, additional liquidity monitoring metrics and reporting requirements least used by data recipients.
- **Coordination and integration of data requests and reporting requirements**. Reducing overlaps and duplication between the EBA supervisory reporting framework and reporting to other stakeholders, as well as on Ad hoc requests was another of the issues flagged. The EBA recommends commitment to better coordinate additional reporting requirements or data requests using the same definitions and developing a best practice guidance for competent authorities.
- **Changes to the reporting process, including the wider use of technology**. Another issue relates to better internal risk data aggregation capabilities and the need for better IT and data infrastructures is a to do to be taken into consideration. The EBA recommends raising awareness of institutions, and in particular small and non-complex institution/institutions (SNCI), about possible use cases of FinTech/RegTech.

3. Next steps

- The recommendations will be incorporated into the EBA work programme. Each of the measures will be implemented on different dates within a timetable included in the document.

25/06/2021
Report on management and supervision of ESG risks for credit institutions and investment firms

1. Context

The revised CRR/CRD package gives the EBA the mandate to develop a report providing uniform definitions of ESG risks, and appropriate qualitative and quantitative criteria for the assessment of the impact of environmental, social and governance (ESG) risks on the financial stability of institutions in the short, medium and long term. The EBA is also mandated to elaborate on the arrangements, mechanisms and strategies to be implemented by institutions to identify, assess and manage ESG risks and to assess their potential inclusion in the review and evaluation performed by competent authorities.

In this context, the EBA has published its **Report on ESG risks management and supervision** which identifies evaluation methods that are needed for effective risk management and recommends integrating ESG risks into business strategies, governance and risk management as well as supervision in a timely manner.

2. Main points

- **Quantitative and qualitative indicators, metrics and methods to assess ESG risks**. Provides a non-exhaustive list of ESG indicators together with a description of several tools and methodologies to support the identification, evaluation and assessment of ESG risks. The EBA has identified three different approaches for the assessment of ESG risks: i) portfolio alignment method; ii) risk framework method; and (iii) exposure method.
- **Management of ESG risks by institutions**. The EBA sees a need to enhance, in a risk-based and proportionate manner, the incorporation of ESG risks into institutions' business strategies, internal governance arrangements and risk management frameworks.
    - Business strategies. The impacts of ESG risks should be appropriately taken into account in order to ensure the resilience of business models over the short-, medium- and long-term time horizons. The EBA recommendation for institutions are: i) to incorporate ESG risk-related considerations when setting business strategies, in particular by extending the time horizon for strategic planning to at least 10 years, by testing their resilience to different scenarios; ii) implement ESG risk-related strategic objectives and/or limits, including related key performance indicators.
    - Internal governance. The EBA recommends that institutions integrate ESG risks in governance structures, establishing clear working procedures for business lines, internal control functions, the relevant committee(s) and management body.
    - Risk management. The EBA recommends that institutions incorporate ESG risks into their risk management framework, taking into account an assessment of their materiality over different time horizons, for example by: i) embedding material ESG risks in the risk appetite framework; or ii) managing ESG risks as drivers of financial risks.
- **ESG factors and ESG risks in supervision**. The EBA sees a need to reflect ESG risks in the supervisory evaluation of institutions. To this end, it is necessary to extend the time horizon of the supervisory assessment of the resilience of institutions' business models, applying at least a 10 year horizon to capture physical risks, relevant public policies or broader transition trends.

3. Next steps

- This report has been transmitted to the EP, the Council and the EC, and will be used by the EBA as a basis for the development of Guidelines on the management of ESG risks by institutions and the supervision of ESG risks by EU competent authorities.

28/06/2021

Consultation on amendments to reporting on securitisation, asset encumbrance and G-SIIs

1. Context

In June of 2021, the EBA published the Report on the Study on the Cost of compliance with supervisory reporting requirements with the objective of making proposals to reduce the costs of compliance with supervisory reporting requirements. These proposals were agreed by the EBA Board of Supervisors and will be gradually implemented.

In this context, the EBA has published a public consultation to amend its **Implementing Technical Standards (ITS) on Supervisory Reporting**. This consultation paper proposes changes to asset encumbrance reporting and proposes changes to COREP securitisation and G-SII reporting.

2. Main points

- **COREP securitisations**.
  - Revised securitisations framework. A number of new concepts which competent authorities will have to take into account in the context of securitisations are introduced. These concepts are: i) non-performing exposures (NPE) securitizations; ii) transparent and standardised (STS) securitizations on the balance sheet; iii) excess spread; and iv) collateralisation practices.
  - Other amendments to COREP Own Funds. Other amendments on matters of intangible software assets exempted from the deduction from CET1 capital and other minor technical amendments are introduced.
- **Asset encumbrance**.
  - Level of asset encumbrance to create a level playing field between entities applying different accounting standards. It is suggested to keep the scope of items covered by asset encumbrance reporting unchanged. Furthermore, the formula for determining the level of asset encumbrance is amended, in order to exclude those fiduciary assets both from the numerator and the denominator of the ratio, when assessing whether an institution exceeds the threshold of 15%.
- **Reporting for the purposes of identifying G-SIIs and assigning G-SII buffer rates**. It is suggested to extend the obligation to report core information for the purposes of identifying G-SIIs and assigning G-SII buffer rates in accordance with an EU-specific methodology to standalone entities that meet the relevant criteria. The aim of this extension is therefore to ensure that also standalone institutions are covered by this specific reporting obligation.

3. Next steps

- Comments to this consultation can be sent until **23 September 2021**. The first reference date for the application of these technical standards is foreseen to be **December 2022**.

29/06/2021

- **Updates on the monitoring of Additional Tier 1 instruments**
- **Consultation to amend technical standards on credit risk adjustments**

1. Context

The EBA has published the its **updated Report on the monitoring of Additional Tier 1 (AT1) instruments** including an update on the monitoring of the implementation of the EBA's Opinion on legacy instruments and its considerations on environmental, social and governance (ESG) capital bons. The objective of this update is to further strengthen the robustness and quality of EU institutions' own funds and eligible liabilities instruments.

Also, the EBA has published **a public consultation on amendments to its Regulatory Technical Standards (RTS) on credit risk adjustments** in the context of the calculation of the Risk Weight (RW) of defaulted exposures under the Standardised Approach (SA).

2. Main points

<u>Updated Report on the monitoring of Additional Tier 1 instruments</u>

- **AT1 monitoring**. The EBA's guidance focuses on a few areas of AT1 instruments where there might be different interpretations which is the case for some provisions related to triggers for loss absorption, where the appropriate level of application (solo, sub-consolidated or consolidated level) needs to be specified.
- **Opinion on the instruments issued prior to the entry into force of the CRR (legacy instruments)**. In the context of the end of the transitional period for legacy instruments, the EBA develops a new section where the attention is on the need to keep the capital structure simple
- **Instruments with ESG features**. The EBA has added a new section with recommendations to ensure that the institutions' own funds and eligible liabilities instruments issued with ESG features are compliant with the Capital Requirements Regulation (CRR) eligibility criteria and Bank Recovery and Resolution Directive (BRRD) requirements.

<u>Public consultation on amendments to Regulatory Technical Standards (RTS) on credit risk adjustments</u>

- **Risk Weight**. The EC asks the EBA to consider the appropriate prudential treatment of the risk weight (RW) for defaulted exposures following the sale of a non-performing asset under the SA for credit risk. Under the current regulatory framework, the capital charge for a defaulted exposure may, under certain circumstances, increase after its sale from a risk weight of 100% on the seller's balance sheet to a risk weight of 150% on the balance sheet of the credit institution buying the assets.
- **Proposed amendments**. It is proposed to modify the credit risk adjustments under the SA by introducing a change in the recognition of these adjustments that ensures that the RW can remain the same before and after the sale. In particular, the price discount arising from the sale will be recognised as a credit risk adjustment for the purpose of determining the RW.
- **CRR3**. By implementing this change, the EBA aims at clarifying the regulatory treatment of sold NPL assets. However, the EBA also recommends that the treatment set out in this RTS be included in the EC's considerations to the revised proposal for the future Capital Requirements Regulation (CRR3) proposal.

3. Next steps

Comments to the CP on credit risk adjustments can be sent before **24 September 2021**.

29/06/2021
Proyecto de Circular por la que se modifican las Circulares a entidades de crédito y a establecimientos financieros sobre normas de información financiera pública y reservada, y modelos de estados financieros.

1. Contexto

En diciembre de 2020, la Comisión Europea (EC) publicó el Reglamento por el que se establecen normas técnicas de ejecución para la aplicación de CRR y por el que se introducen cambios a Finrep. Además, en enero de 2021 la EC publicó el Reglamento por el que se modifica el Reglamento relativo a la aplicación de normas internacionales de contabilidad y por el que se adoptan determinadas normas internacionales de contabilidad.

En este contexto, el BdE ha lanzado la consulta pública del **proyecto de circular por la que se modifican las Circulares a entidades de crédito y a establecimientos financieros sobre normas de información financiera pública y reservada, y modelos de estados financieros.** El objetivo de esta actualización es preservar la convergencia de la normativa contable española de las entidades financieras con las Normas Internacionales de Información Financiera adoptadas por la EU, así como mantener la alineación y evitar solapamientos con otras normas y directrices europeas.

2. Principales aspectos

- **Actualización de la Circular a entidades de crédito sobre normas de información financiera pública y reservada, y modelos de estados financieros.** Las principales modificaciones hacen referencia a:
  - <u>Los criterios de reconocimiento, valoración y presentación</u>. Se modifica el modo de determinar el importe en libros bruto para los activos financieros a valor razonable con cambios en otro resultado global.
  - <u>Simplificación de los requerimientos de envío de estados financieros</u>. Se modifica la norma relativa a los estados individuales reservados. En concreto, se realizan los cambios necesarios para recoger el régimen simplificado de requerimientos de envío de estados financieros reservados aplicable a las sucursales de entidades de crédito extranjeras que operen en España cuya sede central se encuentre en un Estado miembro del Espacio Económico Europeo.
  - <u>Actualización de los estados reservados relativos a los requerimientos de datos estadísticos de la EU</u>. Se modifican los estados reservados que las entidades de crédito deben enviar al BdE.
  - <u>Incorporación de nuevos requerimientos de datos</u>. Se modifica el anexo relativo a los estados individuales reservados mediante la incorporación de modificaciones puntuales a fin de introducir nuevos requerimientos de datos para verificar el cumplimiento de normas o recopilar información estadística, así como para realizar los ajustes técnicos y las correcciones identificadas como necesarias.
  - <u>Actualización de las soluciones alternativas para la estimación colectiva de las coberturas de la pérdida por riesgo de crédito</u>. Se modifica el anexo relativo al análisis y cobertura del riesgo de crédito. La actualización recoge la evolución de los datos de las operaciones declaradas por las entidades al BdE y, además, en el caso de las soluciones alternativas, incorpora previsiones actualizadas sobre las condiciones macroeconómicas futuras.
- **Actualización de la Circular a establecimientos financieros de crédito, sobre normas de información financiera pública y reservada, y modelos de estados financieros**. Se suprime la disposición adicional única relativa a las previsiones con finalidad prudencial.

3. Próximos pasos

- Los comentarios a esta consulta pública pueden remitirse hasta el **13 de julio de 2021**.
- Esta Circular entrará en vigor a los **20 días** de su publicación en el BOE con las siguientes especificidades:
  - Los cambios en los estados individuales reservados se aplicarán con el **31 de enero de 2022** como primera fecha de referencia para los estados de frecuencia mensual, el **31 de marzo de 2022** para los de frecuencia trimestral, el **30 de junio de 2022** para los de frecuencia semestral y el **31 de diciembre de 2022** para los de frecuencia anual.
  - La actualización de los requerimientos de datos estadísticos se aplicará con el **31 de enero de 2022** como primera fecha de referencia para los estados con frecuencia mensual y el **31 de marzo de 2022** para aquellos con frecuencia trimestral.
  - Los cambios al anexo relativo al análisis y cobertura del riesgo de crédito se aplicarán desde el **30 de junio de 2022**.

CONGRESO DE LOS DIPUTADOS

21/05/2021
Ley 7/2021 de cambio climático y transición energética

1. Context

In 2015, the Paris Agreement was signed with the mission of promoting the international response to the threat of climate change, and establishes the objective of a maximum temperature increase in the 21st century of 2ºC with respect to pre-industrial levels. In addition, that same year the 2030 Agenda for Sustainable Development was established at the United Nations (UN), which sets out 17 sustainable development goals. Both agreements mark the beginning of a global agenda towards sustainable development.

In this context, the General Courts has approved **Law 7/2021 on climate change and energy transition** with the aim of ensuring compliance with the objectives of the 2015 Paris Agreement and facilitating the decarbonization of the Spanish economy.

2. Main points

- **Energy transition and fuels**. No new exploration authorisations, hydrocarbon research permits or exploitation concessions will be granted for hydrocarbons. In addition, no new authorisations shall be granted to carry out any activity for the exploitation of hydrocarbons in which the use of high-volume hydraulic fracturing is envisaged. Five years before the end of the term of an exploitation concession, the person or entity holding the concession shall submit a report to the Ministry for Ecological Transition and the Demographic Challenge reflecting the potential for conversion of its facilities or their location to other subsoil uses. In addition, coherence will be required between public aid or incentives and climate change mitigation objectives.
- **Emission-free mobility and transportation**. Development of the 2050 decarbonization strategy. The necessary measures will be adopted so that new cars and light commercial vehicles, not intended for commercial use, reduce their emissions. Municipalities with more than 50,000 inhabitants and island territories will plan measures to reduce emissions derived from mobility. The installation of electric recharging infrastructures in service stations whose annual sales of gasoline and diesel exceed 5 million liters, must have a power equal to or greater than 50 kW.
- **National Plan for Adaptation to Climate Change (PNACC)**. It is the basic planning instrument to address the effects of climate change in Spain. The PNACC will be developed through Work Programs, to be implemented in five-year periods. The specific objectives of the PNACC will include:
    - <u>Development of climate scenarios</u>.
    - <u>Collection, analysis and dissemination of information</u> on vulnerability and adaptation to climate change in different socio-economic sectors, ecological systems and territories.
    - <u>Promotion and coordination of the participation of all actors involved in adaptation policies</u>.
    - <u>The definition of a system of indicators of impacts and adaptation to climate change</u>.
    - <u>Preparation of regular monitoring and evaluation reports on the PNACC and its work programmes</u>.

BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

09/04/2021

Consultation Paper (CP) 7/21 on Credit risk: The identification of the nature, severity, and duration of an economic downturn for the purposes of Internal Ratings Based (IRB) models

1. Context

In 2018, the European Banking Authority (EBA) published the draft RTS on economic downturn, and in 2020 its opinion on the EC's amendments relating to the final draft RTS. As the final RTS has not entered into force before the end of the transition period for the UK's exit from the EU, and therefore it did not get automatically converted into UK law, the PRA considers that it is appropriate to introduce requirements for identifying an economic downturn in order to foster greater comparability of capital requirements across firms.

In this context, the PRA has published the **Consultation Paper (CP) 7/21 on the identification of the nature, severity, and duration of an economic downturn for the purposes of Internal Ratings Based (IRB) models**, which sets out the Prudential Regulation Authority's (PRA) proposed approach to implementing new requirements relating to the specification of the nature, severity,and duration of an economic downturn in the internal ratings based (IRB) approach to credit risk.

2. Main points

- **The nature of economic downturns**. The PRA is proposing a consistent set of economic indicators that would be considered relevant for all exposures, as the PRA considers them to be key indicators of an economic cycle: i) gross domestic product (GDP); ii) unemployment rate; iii) externally provided aggregate default rates, where available; and iv) externally provided aggregate credit losses, where available.
- **The severity of an economic downturn**. For the purpose of specifying the severity of the economic downturn, and for identifying the most severe values associated with each relevant economic indicator, the PRA proposes to require firms to use a historic time period that is sufficiently long to provide values that are representative of the values that may be taken by those economic indicators in the future, including in a future severe downturn. Additionally, the PRA proposes to require firms to consider a period of at least 20 years in order to promote consistency of firms' downturn estimates.
- **The duration of an economic downturn**. For the purposes of specifying the duration of an economic downturn, the PRA proposes that a single downturn period should be long enough to cover all the peaks or troughs related to the most severe 12-month values observed for the different economic indicators associated with that single downturn period.

3. Next steps

- Comments to this CP can be submitted until **7 July 2021**.

BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY

25/05/2021
Business Plan 2021/22

1. Context

The PRA has adopted the **Business Plan 2021/22** which sets out its eight strategic objectives for the coming year. This strategy will be achieved in close co-operation with other parts of the bank, the Financial Conduct Authority (FCA) and international counterparts.

2. Main points

- **Robust prudential standards and supervision**. Have in place robust prudential standards, and hold regulated firms, and those who run them, accountable for meeting these standards.
- **Adapt to market changes**. Adaptation to changes in the markets in which we the PRA is involved, and pre-empt and mitigate potential risks to the achievement of objectives. Also, continue to work on setting out expectations for firms and building internal expertise on climate change, including climate disclosures.
- **Financial resilience**. Ensure that firms are adequately capitalised, and have sufficient liquidity, for the risks they are running or planning to take.
- **Operational resilience**. Develop the PRA's supervision of operational resilience in order to mitigate the risk of disruption to the provision of important business services.
- **Recovery and resolution**. Ensure that banks and insurers have credible plans in place to enable them to recover from stress events, and that firms work to remove barriers to their resolvability to support the management of failure, proportionate to the firm's size and systemic importance.
- **Competition**. Facilitate effective competition by actively considering the proportionality of the PRA's approach as it contributes to the safety and soundness of the UK financial system.
- **Withdrawal from the EU**. Maintain a sustainable and resilient UK financial regulatory framework following the UK's exit from the EU.
- **Efficiency and effectiveness**. Operate effectively and efficiently by ensuring that resources are allocated to work that best advances the PRA's strategy and reduces the greatest risks to the delivery of the PRA's statutory objectives.

BANK OF ENGLAND

10/06/2021
Key elements of the 2021 Biennial Exploratory Scenario: Financial risks from climate change

1. Context

The Bank of England (BoE) runs regular stress tests to help assess the resilience of the UK financial system and individual institutions. There are two types of exercise, the annual solvency stress tests and biennial exploratory scenarios (BES). Running BES allows to probe the resilience of the UK financial system to a wide range of risks.

In this context, the BoE has published the **key elements of the 2021 Climate Biennial Exploratory Scenario (CBES)** which aims to test the resilience of the current business models of the largest banks and insurers, and the financial system to the physical and transition risks from climate change.

2. Main points

- **Key features of the CBES exercise**. The CBES explores the resilience of large UK banking groups and building societies, large life insurers and large UK general insurers. The CBES will explore the vulnerability of current business models to future climate policy pathways and the associated changes in global warming. In doing so, it will help to identify the potential risks posed to those business models over time. To do this, participants will measure the impact of the scenarios on their end-2020 balance sheets, which represents a proxy for their current business models.
- **Description of the CBES scenarios**. All climate scenarios are subject to significant uncertainty, both from estimating the precise extent of transition and physical risks resulting from the conditioning assumptions, and from estimating the impact of these risks on macroeconomic and financial variables. The CBES uses three scenarios to explore the two key risks from climate change: transition risks and physical risks:
    - Early action scenario. The transition to a net-zero emissions economy starts in 2021 so carbon taxes and other policies intensify relatively gradually over the scenario horizon. Global carbon dioxide emissions (and all greenhouse gas emissions in the UK) drop to net-zero around 2050.
    - Late action scenario. The transition is delayed until 2031, at which point there is a sudden increase in the intensity of climate policy. In this case, the transition to reach a net zero around 2050 is more abrupt and therefore disorderly.
    - The no additional action scenario. This scenario explores physical risks from climate change. Here, there are no new climate policies introduced beyond those already implemented prior to 2021.

3. Next steps

- Before the final results are published, the BoE expects to run a second round of the exercise, which would launch around the end of **January 2022**.
- The BoE expects to publish the CBES results in **May 2022**.

25/06/2021
2021 Supervisory Stress Test Results

1. Context

The Fed's stress tests evaluate the resilience of large banks with the aim to ensure that large banks are able to lend to households and businesses even in a severe recession. In early 2021, the Fed published hypothetical scenarios describing the scenarios and additional components that will be used to conduct the 2021 stress test.

In this context, the Fed has released the **2021 stress test results** which include information such as revenues, expenses, losses or capital ratios under adverse economic and financial conditions for each firm.

2. Main points

- **Supervisory Scenarios**
  - Severely adverse scenario. It is characterized by a severe global recession accompanied by a period of heightened stress in commercial real estate and corporate debt markets consistent with the Scenario Design Framework.
  - Global market shock and counterparty default components. The Fed applied a global market shock to the trading and private equity portfolios of firms with large trading exposures. The global market shock is a set of hypothetical shocks to a large set of risk factors reflecting general market distress and heightened uncertainty.
- **Supervisory Stress Test Framework and Model Methodology**.
  - Modeling framework. The Fed estimates the effect of supervisory scenarios on the regulatory capital ratios of banks participating in the supervisory stress test by projecting net income and other components of regulatory capital for each bank over a nine-quarter projection horizon.
  - Capital action assumptions. The common stock dividend payments are assumed to be zero over the projection horizon.
  - Data inputs. Detailed data on projected pre-provision net revenue (PPNR), loans, securities, trading and counterparty risk, and losses related to operational risk events and business plan changes are collected.
- **Stress Test Results under the Severely Adverse Scenario**. Describes the Fed's projections of losses, revenues, expenses, and capital positions for the 23 banks that participated in the results of the stress test 2021 under the severely adverse scenario.
  - Projected losses. The Fed projects that Banks as a group would experience $474 billion in losses on loans and other positions in the aggregate over the nine quarters of the projection horizon.
  - Projected PPNR. Banks are projected to generate $298 billion in PPNR cumulatively over the nine quarters of the projection horizon. The ratio of projected cumulative PPNR to average assets varies across banks, this variation reflects differences in business focus across the institutions.
  - Net Income and Regulatory Capital Treatment. Projected PPNR and provisions for loan losses are the primary determinants of projected pre-tax net income. Projections of pre-tax net income under the severely adverse scenario imply negative net income at most individually and for the banks as a group over the nine-quarter projection horizon.

MARKET RISK

(07/04/2021) EBA – EBA consults on the list of advanced economies to determine equity risk under the new market risk regime

The European Banking Authority (EBA) launched a public consultation on its draft Regulatory Technical Standards (RTS) on the list of countries with an advanced economy for calculating the equity risk under the alternative standardised approach (FRTB-SA). The consultation runs until 2 July 2021.

SIBs

(31/03/2021) FSB – FSB publishes final report of the evaluation of too-big-to-fail reforms for banks

The Financial Stability Board (FSB) published the final report on its evaluation of the effects of too-big-to-fail (TBTF) reforms for systemically important banks (SIBs). The evaluation examines the extent to which the reforms have reduced the systemic and moral hazard risks associated with SIBs, as well as their broader effects on the financial system.

CRD/CRD V

(15/04/2021) PRA – The PRA's methodologies for setting Pillar 2 capital

The PRA has published a Statement of Policy which sets out the methodologies that the Prudential Regulation Authority (PRA) uses to inform the setting of Pillar 2 capital for firms to which CRD IV applies. There are two sections: i) Section I: Pillar 2A methodologies. This sets out the methodologies PRA will use to inform the setting of a firm's Pillar 2A capital requirement for different types of risks (e.g. credit risk, market risk, operational risk or counterparty credit risk); ii) Section II: Pillar 2B. This provides information on the purpose of the PRA buffer, how it is determined and how it relates to the CRD IV buffers.

(15/04/2021) PRA – The Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP)

The PRA has published a supervisory statement (SS) which (SS) is aimed at firms to which CRD applies and replaces PRA SS5/13 and PRA SS6/13. It provides further detail on the high-level expectations outlined in The Prudential Regulation Authority's approach to banking supervision. This SS should be read in conjunction with the Statement of Policy 'The PRA's methodologies for setting Pillar 2 capital.

CRR

(15/04/2021) EBA – EBA published final draft technical standards specifying the methods of prudential consolidation

The European Banking Authority (EBA) has published its final draft Regulatory Technical Standards (RTS) specifying the conditions according to which consolidation shall be carried out in line with Article 18 of the Capital Requirements Regulation (CRR). The aim of these draft RTS is to ensure that the appropriate method of prudential consolidation is applied for the calculation of the CRR requirements on a consolidated basis. Compared to the Consultation Paper, the final draft RTS have been revised also to reflect the amendments introduced as part of the Risk Reduction Measures Package adopted by the European legislators.

ESI

(16/04/2021) CNMV – Nueva Circular sobre normas contables, cuentas anuales y estados financieros de las ESI y sus grupos consolidables, SGIIC y SGEIC

The Comisión Nacional del Mercado de Valores (CNMV) has published Circular 1/2021 of 25 March on accounting standards, annual accounts and financial statements of Investment Firms. The purpose of this Circular is to modify the accounting regime of certain entities subject to CNMV supervision so that, in general, the general accounting framework established through the regulatory empowerment contained in the Law on the reform and adaptation of commercial legislation in accounting matters for its international harmonisation based on EU regulations is applicable to them by reference.

Other publications of interest

Capital, liquidity and leverage

React EU

(22/04/2021) Comisión Delegada del Gobierno – Orden PCM/377/2021 por el que se establece el procedimiento para la adhesión de las Comunidades Autónomas destinatarias de los recursos adicionales de la ayuda a la recuperación para la cohesión y los territorios de España (REACTUE)

The Comisión Delegada del Gobierno para Asuntos Económicos has adopted an Agreement establishing the procedure for the accession of the Autonomous Communities receiving the additional resources of the recovery aid for cohesion and the territories of Spain (REACT-EU) to the REACT-EU Liquidity Fund compartment, as well as the financial conditions of the credit operations in 2021 and the other conditions for their availability.

Capital

(29/04/2021) EBA– EBA consults on draft technical standards specifying how to identify the appropriate risk weights and conditions when assessing minimum LGD values for exposures secured by immovable property

The Comisión Delegada del Gobierno para Asuntos Económicos has adopted an Agreement establishing the procedure for the accession of the Autonomous Communities receiving the additional resources of the recovery aid for cohesion and the territories of Spain (REACT-EU) to the REACT-EU Liquidity Fund compartment, as well as the financial conditions of the credit operations in 2021 and the other conditions for their availability.

(27/04/2021) Gobierno – Real Decreto-ley 7/2021, de 27 de abril, de transposición de directivas de la Unión Europea en las materias de competencia, prevención del blanqueo de capitales, entidades de crédito, telecomunicaciones, medidas tributarias, prevención y reparación de daños medioambientales, desplazamiento de trabajadores en la prestación de servicios transnacionales y defensa de los consumidores

The Government of Spain has published Royal Decree 7/2021 on the transposition of European Union directives in the areas of competition, prevention of money laundering and credit institutions. This Royal Decree contains the amendments derived from the transposition of the Directive aimed at providing the competition authorities of the Member States with the means to apply competition rules more effectively. It also introduces the necessary amendments to our domestic legislation for the correct transposition of the recent Directive on the prevention of the use of the financial system for the purpose of money laundering or terrorist financing.

Interbank Rates

(30/04/2021) EIOPA – EIOPA consults on Interbank Offered Rates

The EIOPA has launched a consultation on Interbank Offered Rates (IBOR) transitions. The consultation considers adjustments to EIOPA's risk-free rate (RFR) methodology and production, in light of If the EU Benchmark Regulation (EU BMR) which requires financial benchmarks to be transparent and to measure the underlying economic reality in a representative way. EIOPA seeks to adopt a common approach, for all currencies on the transition to the new rates in order to continue producing consistent RFR term structures.

SRB MREL Dashboard

(04/05/2021) SRB – MREL dashboard Q4.2020

The Single Resolution Board (SRB) has published its minimum requirement for own funds and eligible liabilities (MREL) dashboard covering the reporting period Q4.2020. Some key findings are that: i) MREL issuances amounted to EUR 44.5 bn, with banks showing some differences in the volume of issuances. Overall, in 2020, banks have issued EUR 275.2 bn of MREL eligible instruments; ii) the average final MREL target represented 22.82% of the total risk exposure amount (TREA).

MIFID/MIFIR

(12/05/2021) ESMA – Consults on its MIFID II/MIFIR annual report

The European Central Bank (ECB) has published today its recommendations addressing events that would trigger fallbacks in EURIBOR-related contracts, as well as euro short-term rate based EURIBOR fallback rates. While there is currently no plan to discontinue EURIBOR, the development of more robust fallback language addresses the risk of a potential permanent discontinuation and is in line with the EU Benchmarks Regulation (BMR).

Own funds

(26/05/2021) EBA – EBA publishes final draft technical standards on own funds and eligible liabilities

The EBA has published its final draft Regulatory Technical Standards (RTS) on own funds and eligible liabilities after running a public consultation till August 2020. The Final Draft hasn't contain significant changes with respect to the consultation paper. With the revised Capital Requirements Regulation (CRR) introducing new criteria and requirements for eligible liabilities, these amended RTS capture several aspects of eligible liabilities as well as the changes to the own funds framework.

Investment firms

(31/05/2021) EBA/ESMA – EBA and ESMA publish provisional list of instruments and funds for the smallest investment firms under the Investment Firms Regulation

The EBA, jointly with the ESMA, published a provisional list of additional instruments and funds that competent authorities may allow to use as own funds for some of the smallest investment firms. The latter include only non-legal persons or joint-stock companies, or those which meet the conditions for qualifying as small and non-interconnected investment firms as defined in the Investment Firm Regulation (IFR).

Access to the activity of credit institutions

(10/06/2021) EC – Reglamento Delegado 2021/923 por el que se complementa la Directiva 2013/36/UE en lo que respecta a las normas técnicas de regulación por las que se establecen los criterios de definición de las responsabilidades de dirección, las funciones de control, las unidades de negocio importantes y la incidencia significativa en el perfil de riesgo de una unidad de negocio importante

The European Commission (EC) has published a Delegated Regulation which complements CRD and repeals Regulation 604/2014, which incorporates a list of definitions, as well as a number of amendments to the qualitative and quantitative criteria that determine whether the professional activities of staff members have a material impact on the risk profile of a significant business unit.

Leverage ratio

(18/06/2021) ECB - ECB's Governing Council confirms that exceptional circumstances continue to justify leverage ratio relief

European Central Bank's (ECB) Governing Council issues opinion confirming that exceptional circumstances warranting leverage ratio relief still exist. Opinion instrumental in ECB Banking Supervision's decision to allow banks to exclude certain central bank exposures from leverage ratio.

CCP

(24/06/2021) EC - Financial stability: Commission adopts final one-year extension of the transitional regime for capital requirements for non-EU central counterparties (CCPs)

The European Commission (EC) has extended, by one additional year, the current transitional regime regarding the capital requirements that EU banks and investment firms must maintain when exposed to non-EU central counterparties (CCPs). This transitional regime will therefore continue to apply until 28 June 2022. This is the last and final extension possible under the Capital Requirements Regulation (CRR).

EBA Risk dashboard

(30/06/2021) EBA - Risk dashboard Q12021

The EBA has published its first quarter Risk Dashboard of 2021. The quarterly data shows that the CET1 ratio increased again slightly, that the NPL ratio declined despite a slight rise in NPL volume. Furthermore, the Profitability improved strongly and Close to 60% of the banks see an increase in operational risk due to cyber risk and data security issues.

Monetary Policies

(30/06/2021) FSB - Consultation report with policy proposals to enhance money market fund (MMF) resilience

The Financial Stability Board (FSB) has published a Consultation Report on policy proposals to enhance money market fund resilience. The policy options in the report aim to address the structural vulnerabilities in MMFs and related stress in short-term funding markets. Comments to this consultation can be sent before 16 August 2021.

NPL

(04/05/2021) EBA – EBA launches discussion on NPL data templates

The EBA has published a discussion paper to facilitate the review of the standardised NPL data templates. The discussion paper invites all stakeholders and NPL market participants on the buyer and seller side to provide their input. The consultation runs until 31 August 2021.

PROVISIONS

(27/05/2021) EBA – EBA provides a comparison of provisioning in the United States and the European Union in the context of the COVID-19 pandemic

The EBA has published a thematic note comparing provisioning practices in the US and the EU during the peak of the COVID-19 pandemic. The note looks into the differences in the macroeconomic impact of the pandemic, in banks' loan portfolios, and in accounting rules that might explain why the cost of risk (CoR) of US banks was much higher compared to their EU peers in the first half of 2020.

NPL

(03/06/2021) PRA - CP10/21 - Implementation of Basel standards: Non-performing loan securitisations

The Prudential Regulation Authority (PRA), has published the Consultation Paper which sets out the PRA's proposed rules in respect of the implementation of prudential standards agreed by the Basel Committee on Banking Supervision (BCBS) for non-performing loan (NPL) securitisations in the context of the UK having left the EU.

Other publications of interest

Supervision

Supervision and Solvency

(21/04/2021) Gobierno – Real Decreto 288/2021, de 20 de abril, por el que se modifica el Real Decreto 1060/2015, de 20 de noviembre, de ordenación, supervisión y solvencia de las entidades aseguradoras y reaseguradoras; se da nueva redacción al artículo 34 del Reglamento de Ordenación y Supervisión de los Seguros Privados

The Government of Spain has published Royal Decree 288/2021 amending Royal Decree 1060/2015 on the regulation, supervision and solvency of insurance and reinsurance undertakings. This Royal Decree includes the renewal of the biometric tables used by insurance undertakings that must contemplate both quantitative and qualitative aspects, including those related to good governance, transparency before third parties, and appropriate market conduct.

Risk Analysis

(28/04/2021) EIOPA – Risk Dashboard based on the fourth quarter of 2020 Solvency II data

The European Insurance and Occupational Pensions Authority (EIOPA) has published its updated Risk Dashboard based on the fourth quarter of 2020 Solvency II data. The results show that insurers' exposures to macro risks remain at high level while all other risk categories remain at medium level. On the other hand, the European supervisors expect an increase in credit risk over the next 12 months, reflecting concerns over corporate indebtedness.

MIFID II

(06/05/2021) ESMA – ESMA updates opinion on ancillary activity calculations

The European Securities and Markets Authority (ESMA) has published an updated Opinion on ancillary activity calculations. The opinion provides the estimation of the market size of commodity derivatives and emission allowances for 2020. These sizes are important to enable market participants to assess whether they exceed the ancillary activity thresholds in MiFID II and consequently would have to apply for authorisation as an investment firm.

Securitisation Regulation

(17/05/2021) ESAs – ESAs report on the implementation and functioning of the Securitisation Regulation

The Joint Committee of the European Supervisory Authorities has published today its analysis of the implementation and the functioning of the EU Securitisation Regulation (SECR). This analysis includes recommendations on how to address initial inconsistencies and challenges, which may affect the overall efficiency of the current securitisation regime.

AML/CFT

(27/05/2021) EBA – EBA consults on new Guidelines on cooperation and information exchange in the area of anti-money laundering and countering the financing of terrorism

The EBA has launched a public consultation on its new Guidelines that set out how prudential supervisors on anti-money laundering and countering the financing of terrorism (AML/CFT) supervisors and financial intelligence units (FIUs) should cooperate and exchange information in relation to AML/CFT, in line with provisions laid down in the Capital Requirements Directive (CRD). This consultation runs until 27 August 2021.

Resolution

(28/05/2021) PRA – SS4/19 - Resolution assessment and public disclosure by firms

The PRA has published the Supervisory Statement (SS) 4/19 on Resolution assessment and public disclosure by firms. This SS sets out how UK banks and building societies should comply with the rules to assess their preparations for resolution, submit a report of their assessment, and publish a summary of their report.

MIFIDII/MIFIR

(01/06/2021) ESMA – ESMA publishes final Report on the MIFID II/ MIFIR obligations on market data

The ESMA has published its Final Report on Guidelines on the MiFIDII/MiFIR obligations on market data. The Final Report sets out guidelines on the requirements to publish market data on a reasonable commercial basis and to make market data available free of charge 15 minutes after publication.

INTERNAL APPROACHES

(03/06/2021) EBA – EBA updates technical standards in view of its 2022 benchmarking of internal approaches

The EBA has published an update to its Implementing Technical Standards (ITS) on benchmarking of internal approaches. The benchmarking exercise covers approved internal approaches used for own funds requirements calculation of credit and market risk, as well as internal models used for IFRS9. These ITS include clarifications on the Consultation Paper that was published in December 2020.

RISKS

(03/06/2021) ESMA - ESMA sees a prolonged period of risk from market corrections

The European Securities and Markets Authority (ESMA), has published its first Risk Dashboard (RD) for 2021 covering the first quarter of the year. The ESMA anticipates a prolonged period of risk to institutional and retail investors of further market corrections and sees very high risks across its whole remit.

PERSONAL PENSION

(04/06/2021) EIOPA - EIOPA issues Guidelines on the supervisory reporting for the Pan-European Personal Pension Product

The EIOPA has published the Guidelines on the supervisory reporting regarding the Pan-European Personal Pension Product (PEPP) to ensure the common, uniform and consistent application of the PEPP Regulation's reporting requirements. This Guidelines regulate the applicable reporting deadlines for the PEPP providers to the competent authorities in line with the relevant sectoral rules in place.

STRESS TEST

(07/06/2021) ESMA - ESMA launches 2021 central counterparties stress test

The ESMA has published the framework for its fourth Stress Test for Central Counterparties (CCPs). The 2021 Stress Test addresses credit and concentration risks, and uses improved methodologies, including lessons learned from previous exercises, such as assessing the combination of concentration costs and credit losses when liquidating defaulting portfolios. Furthermore, for the first time the exercise also covers operational risk.

VALIDATION RULES

(10/06/2021) EBA – EBA issues revised list of ITS validation rules

The EBA has issued a revised list of validation rules in its Implementing Technical Standards (ITS) on supervisory reporting, highlighting those, which have been deactivated either for incorrectness or for triggering IT problems.

REPORTING

(14/06/2021) ECB - Regulation (EU) 2021/943 of the European Central Bank of 14 May 2021 amending Regulation (EU) 2015/534 on reporting supervisory financial information (ECB/2021/24)

The Governing Council of the European Central Bank (ECB) has adopted a Regulation amending the Regulation on supervisory financial reporting. This Regulation includes amendments in relation to the format, frequency, reference dates and deadlines for the reporting of supervisory financial information.

STRESS TEST

(22/06/2021) EIOPA - EIOPA publishes its Discussion Paper on the Methodological Framework for Stress-Testing IORPs

The EIOPA has published for consultation its Discussion Paper on the Methodological Framework for Stress-Testing Institution for Occupational Retirement Provision (IORPs). This methodological framework sets out theoretical and practical rules, guidance and possible approaches to support future IORP stress test exercises.

Other publications of interest

Supervision

Prudential regulation

(21/06/2021) PRA – Supervisory Stress Testing of Central Counterparties

The Prudential Regulation Authority (PRA) has published a Discussion Paper (DP) on the supervisory Stress Test of Central Counterparties (CCPs). This Discussion Paper sets out a range of proposals and options for the design of the Bank's CCP supervisory stress-testing framework across eight components: i) risk coverage and participation; ii) frequency and timings; iii) methodology; iv) market shocks scenarios; v) reference dates; vi) defaulter assumptions; vii) sensitivity and reverse stress testing; and viii) disclosure.

Third country branches

(23/06/2021) EBA - EBA proposes to further harmonise EU law applicable to branches of third country credit institutions

The EBA has published a Report on the treatment of incoming third country branches (TCB) under the national law of Member States. The Report, which is addressed to the European Parliament (EP), the Council and the Commission (EC), illustrates the results of a stock-taking exercise conducted with competent authorities about their national regulatory law/regulations and supervisory practices.

SREP

(29/06/2021) EBA – EBA consults to review its Guidelines on common procedures and methodologies for the supervisory review and evaluation process

The EBA has launched a public consultation on its revised Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP) and supervisory stress testing. These Guidelines aim at achieving convergence of practices followed by competent authorities across the EU in their SREP and stress testing processes. Comments to this consultation can be sent before 28 September 2021

Supervision

(29/06/2021) ECB – ECB Public consultation on draft revisions to options and discretions policies

The ECB has launched a public consultation on updates to its harmonised policies for exercising the options and discretions that it is allowed to exercise under European Union law when supervising banks. The consultation relates to many aspects of supervision, including permissions for banks seeking to reduce their capital, the treatment of certain exposures in the calculation of the leverage ratio as well as some exemptions from the large exposures limit. Consultation ends on 23 August 2021.

(25/06/2021) ECB – ECB takes over supervision of systemic investment firms

The ECB will supervise the largest and most systemic investment firms. These firms were previously supervised by national market authorities, but from June 2021 will be supervised by the ECB. In addition, these investment firms must apply for a banking licence.

MREL

(08/01/2021) SRB – MREL reporting update: checklist on reported liabilities and sign-off form

Banks under the Single resolution Board´s (SRB) remit are asked to use a checklist when preparing the Additional Liability Report (ALR) and complete a sign-off form before submission, in order to provide additional assurance on liabilities reported as eligible for MREL. The institution's CEO or board member responsible for resolution should fill out the sign-off form, confirming that procedures and controls were put in place to ensure that the reported data in the ALR correspond to liabilities which meet the eligibility criteria in the legislation (SRMR, BRRD, CRR).

Other publications of interest

Reporting and disclosure

Annual report

(14/04/2021) ECB – Annual Report ECB

The ECB has published the Annual Report for 2020, in which describes the tasks and activities of the European System of Central Banks (ESCB) and reports on the Eurosystem's monetary policy. The Report focusses on: i) the economy in the euro area; ii) the monetary policy; iii) the European financial sector; iv) the functioning of the market infrastructure and payments; v) the efforts to support market functioning and financial services provided to other institutions; vi) banknotes; and vii) ECB research priorities.

MIFID

(19/04/2021) FCA – A new UK prudential regime for MiFID investment firms

The Financial Conduct Authority (FCA) has published the Consultation Paper (CP) 21/7 on a new prudential regime for MIFID investment firms. This regime will streamline and simplify the prudential requirements for MiFID investment firms that are prudentially regulated by the FCA in the UK.

Conduct

(28/04/2021) FCA – CP 21/ 9 on changes to UK MIFID's conduct and organisational requirements

The Financial Conduct Authority (FCA) has published Consultation Paper 21/9 on changes to UK MIFID's conduct and organizational requirements. The proposal will remove the obligation on investment firms who execute orders to produce an annual report setting out the top 5 venues used for executing client orders and a summary of the execution outcomes achieved.

Reporting

(28/04/2021) EBA – The European Banking Authority launches public consultation to enhance proportionality in liquidity reporting

The European Banking Authority (EBA) launched a public consultation on its draft Implementing Technical Standards (ITS) on supervisory reporting with respect to Additional Liquidity Monitoring Metrics (ALMM). Following the mandate laid down in the CRR2, the EBA is proposing to introduce some proportionality considerations in ALMM reporting for small and non-complex institutions.

(26/04/2021) ECB – Guideline on statistical information to be reported on financial intermediaries other than monetary financial institutions / Guideline on reporting requirements on payment statistics / Guideline on statistical information to be reported on consolidated banking data / Guideline on statistical information to be reported on securities issues

The European Central Bank (ECB) has published several Guidelines on Reporting requirements of financial intermediaries related to: i) the statistical information to be reported on financial intermediaries other than monetary financial institution; ii) the reporting requirements on payments statistics; iii) the statistical information to be reported on consolidated banking dada; and iv) the statistical information to be reported on securities issues.

Taxes

(10/05/2021) FDIC – Tax Allocation Agreements

The Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (Fed), and the Federal Deposit Insurance Corporation (FDIC) are inviting comment on a proposed rule under section regarding safety and soundness of the Federal Deposit Insurance Act that would establish requirements for tax allocation agreements between institutions and their holding companies in a consolidated tax filing group.

Risk review

(10/05/2021) FDIC – 2021 RISK REVIEW

The FDIC has developed a Risk Review which provides a summary of risks that may ultimately affect FDIC-insured institutions and the FDIC's Deposit Insurance Fund. Much of the discussion in the report focuses on risks that may affect community banks, as FDIC is the primary federal regulator for the majority of these banks in the United States. The Risk Review contributes to the FDIC's mission to maintain stability in the nation's financial system and commitment to building trust and confidence through openness and accountability.

EURIBOR

(11/05/2021) ECB – Private sector working group on euro risk-free rates publishes recommendations on EURIBOR fallbacks

The European Central Bank (ECB) has published today its recommendations addressing events that would trigger fallbacks in EURIBOR-related contracts, as well as euro short-term rate based EURIBOR fallback rates. While there is currently no plan to discontinue EURIBOR, the development of more robust fallback language addresses the risk of a potential permanent discontinuation and is in line with the EU Benchmarks Regulation (BMR).

SFTR

(25/05/2021) ESMA – Guidelines on the calculation of positions under SFTR

The ESMA has published the Final Report on Guidelines on the calculation of positions in Securities Financing Transactions (SFTs) by Trade Repositories (TRs) under the Securities Financing Transactions Regulation. The Guidelines aim to ensure consistency of position calculation across TRs, with regard to the time of calculations, the scope of the data used in calculations, the data preparation, the recordkeeping of data and the calculation methodologies.

RATING AGENCIES

(26/05/2021) ESMA – ESMA consults on disclosure requirements for initial reviews and preliminary ratings

The ESMA has launched a Public Consultation on Disclosure Requirements for Initial Reviews and Preliminary Ratings. The purpose of this Consultation Paper is to propose guidance that will address inconsistencies in the interpretation of the provisions contained in the Credit Rating Agencies (CRA) Regulation.

COMMODITIES

(27/05/2021) ESMA – ESMA consults on synthetic securitizations RTS and amendments to STS templates

The ESMA has launched a consultation, as part of the post-Covid MiFID II Recovery Package, seeking input from market participants on its draft Technical Standards for commodity derivatives. The Consultation Paper also contains ESMA's proposals for technical standards on position management controls. Comments can be sent before 23 July 2021.

REPORTING

(28/06/2021) ECB – Changes to the Eurosystem's loan-level data requirements

The ECB has published the changes to the Eurosystem`s loan-level data requirements. the new loan-level data rules will imply that the European Securities and Markets Authority (ESMA) reporting templates must be used as of 1 October 2021, replacing the current ECB templates.

SECURITISATION

(30/06/2021) EBA - EBA consults on technical standards on risk retention requirements under the Securitisation Regulation

The EBA has published a public consultation on draft Regulatory Technical Standards (RTS) specifying the requirements for originators, sponsors, original lenders and servicers related to risk retention, in line with the Securitisation Regulation. The RTS aim to clarify requirements relating to risk retention, thus reducing the risk of moral hazard.

Other publications of interest

Compliance

VULNERABLE CUSTOMERS

(24/02/2021) FCA – Guidance for firms on the fair treatment of vulnerable customers

The FCA has published final guidance clarifying its expectations of firms on the fair treatment of vulnerable customers. It explains that to achieve good outcomes for vulnerable customers, firms should: i) understand the needs of their target market / customer base; ii) ensure their staff have the rights skills and capability to recognize and respond to the needs of vulnerable customers; iii) respond to customer needs throughout product design, flexible customer service provision and communications; iv) and monitor and assess whether they are meeting and responding to the needs of customers with characteristics of vulnerability, and make improvements where this is not happening.

COVID-19

(14/04/2021) Gobierno – Orden HAC/348/2021, de 12 de abril, por la que se concretan los criterios para asignación de ayudas directas a autónomos y empresas en aplicación de lo dispuesto en el Título I del Real Decreto-ley 5/2021

On March 13, 2021, the Spanish Government approved Royal Decree-Law 5/2021, on extraordinary measures to support business solvency in response to the COVID-19 pandemic. In relation to this Royal Decree, the Government has published the Ministerial Order specifying the criteria for the allocation of direct aid to self-employed and companies in application of the provisions of the Royal Decree.

COVID-19 PRA

(27/04/2021) PRA– PRA statement on the disclosure of exposures subject to measures applied in response to Covid-19

The Prudential Regulation Authority (PRA) has published an statement that updates guidance to UK banks and building societies on the disclosure of exposures subject to Covid-19 measures published on July 2020. Firms should therefore continue to use the templates published in July 2020 up to, and including, 31 December 2021.

Other publications of interest

Climate change

Climate related risks

(14/04/2021) BCBS – Climate-related risk drivers and their transmission channels/ Climate-related financial risks - measurement methodologies

The Basel Committee on Banking Supervision (BCBS) has published a report on Climate-related risk drivers and their transmission channels and a report on measurement methodologies. The two reports discuss transmission channels of climate-related risks to the banking system, and the measurement methodologies of climate-related financial risks. Climate risks drivers can be captured in traditional financial risk categories, however, additional progress is needed to better estimate these risks.

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ORSA

(19/04/2021) EIOPA – EIOPA issues Opinion on the supervision of the use of climate change risk scenarios in ORSA

The European Insurance and Occupational Pensions Authority (EIOPA) has issued an Opinion on the supervision of the use of climate change scenarios in the Own Risk and Solvency Assessment (ORSA) addressed to national supervisory authorities. In this Opinion EIOPA sets out expectations on the supervision of the integration of climate change risk scenarios by insurers in their ORSA.

Climate and insurance

(19/04/2021) IAIS – IAIS and SIF set out key recommendations for insurance supervisors to strengthen efforts to address climate-related risks

The International Association of Insurance Supervisors (IAIS) has published an Application Paper on the Supervision of Climate-related Risks in the Insurance Sector which provides recommendations and examples of good practice for insurance supervisors to manage the challenges arising from climate change. The recommendations are related to: i) role of the supervisor; ii) corporate governance; iii) risk management; iv) investment policy; v) disclosures.

SFDR

(01/06/2021) CNMV – CNMV publica criterios para la aplicación de la nueva normativa europea en materia ambiental, social y de gobernanza en los servicios financieros

The Comisión Nacional del Mercado de Valores (CNMV) has published some interpretative criteria that will guide its authorisation and supervisory actions in the application of the European regulation on environmental, social and governance issues, known as ESG, contained in the Regulation on sustainability disclosures in financial services (SFDR).

Climate Change

(10/06/2021) ECouncil – Council endorses new EU strategy on adaptation to climate change

The Council has approved conclusions endorsing a new strategy that outlines a long-term vision for the EU to become a climate-resilient society that is fully adapted to the unavoidable impacts of climate change by 2050. In particular, the conclusions adopted give political guidance to the Commission as regards the implementation of the strategy.

Cambio climático

(17/06/2021) BoE - The Bank of England's climate-related financial disclosure 2021

El Banco de Inglaterra (BoE) ha publicado un informe relativo a la divulgación financiera relacionada con el clima que establece el enfoque del Banco para gestionar los riesgos del cambio climático en todas sus operaciones. Este informe recoge los avances en los datos y modelos climáticos aplicados a las carteras de activos financieros; los progresos en la reducción de las emisiones de las operaciones físicas, y la evolución de la agenda climática nacional e internacional entre otros aspectos.

Sustainable practices

(24/06/2021) IOSCO - IOSCO Consultation Report on Recommendations for Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management (Consultation Report)

The Board of the International Organization of Securities Commissions (IOSCO) has published the Report on Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management. This Consultation Report focuses on asset managers and investor protection issues and aims to improve sustainability-related practices, policies, procedures and disclosures. The comments to this consultation can be sent before 15 August 2021.

BCBS WORK PROGRAM

(16/04/2021) BCBS – BCBS Work Programme and strategic priorities for 2021/2022

The Basel Committee (BCBS) has published the work programme and strategic priorities for 2021/2022 that outlines the strategic priorities for its policy, supervision and implementation activities. The main priorities are focused on: i) COVID-19 resilience and recovery; ii) horizon scanning and mitigation of risks; iii) Strengthening supervisory coordination and practices; and iv) Basel III implementation.

Other publications of interest

Others

Listed companies

(12/04/2021) Gobierno – Ley 5/2021, de 12 de abril, por la que se modifica el texto refundido de la Ley de Sociedades de Capital, aprobado por el Real Decreto Legislativo 1/2010, de 2 de julio, y otras normas financieras, en lo que respecta al fomento de la implicación a largo plazo de los accionistas en las sociedades cotizadas

The Government of Spain has published Law 5/2021 which aims to transpose into Spanish law the Directive of the European Parliament and of the Council of 17 May 2017 amending the Directive on the exercise of certain rights of shareholders of listed companies. The main objective of this Law is for shareholders to participate more in the long term in the listed companies in which they invest. This Law comes into force twenty days after its publication in the Official State Journal (BOE).

Market Data Quality

(15/04/2021) ESMA – ESMA highlights need for increased efforts on emir and SFTR data quality

The European Securities and Markets Authority (ESMA), the EU's securities markets regulator, has published its final report on the European Markets Infrastructure Regulations (EMIR) and Securitised Financing Transactions Regulation (SFTR) data quality. The report covers the progress made to date in improving EMIR data quality for regulatory and supervisory use and concludes that, while good progress has been made, additional efforts are needed by national competent authorities (NCAs) and ESMA to further improve EMIR data quality.

O-SIIs

(15/04/2021) EBA – EBA updates list of Other Systemically Important Institutions

The EBA has published the list of Other Systemically Important Institutions (O-SIIs) in the EU, which, together with Global Systemically Important Institutions (G-SIIs), are identified as systemically important by the relevant authorities according to harmonised criteria laid down in the EBA Guidelines. This list is based on end-2019 data and also reflects the O-SII score and the capital buffers that the relevant authorities have set for the identified O-SIIs.

(15/04/2021) PRA – Non-systemic UK banks: The Prudential Regulation Authority's approach to new and growing banks - PS8/21

This Prudential Regulation Authority (PRA) Policy Statement (PS) provides feedback to responses to Consultation Paper (CP) 9/20 Non-systemic UK banks: The PRA's approach to new and growing banks. This PS is primarily relevant to new and growing non-systemic UK-incorporated banks, although some banks in this category will have sufficient experience and resources to be able to move quickly to the standard expected of most established banks. This determination will depend on a number of factors, notably on: i) whether the bank is part of an established domestic or international banking group; ii) the size and complexity of its activities; and iii) the extent of its available financial and non-financial resources.

Mortgage Loans

(19/04/2021) PRA – PRA statement on the regulatory treatment of retail residential mortgage loans under the Mortgage Guarantee Scheme

The PRA has published an statement on the regulatory treatment of retail residential mortgage loans under the Mortgage Guarantee Scheme. This statement provides information on capital, notification, disclosure, and reporting requirements for loans under the Mortgage Guarantee Scheme (MGS) as set out in the relevant UK legislation.

Foreign Exchange Rates

(20/04/2021) IASB – IASB proposes amendments setting out accounting for when no foreign exchange rate exists

The International Accounting Standards Board (IASB) has published for public consultation proposed amendments to IAS 21 on The Effects of Changes in Foreign Exchange Rates. The proposed amendments aim to help companies determine whether a currency can be exchanged into another currency, and what accounting to apply if the currency cannot be exchanged

IORP

(15/04/2021) ESMA – EIOPA consults on the reporting of costs and charges of IORPs and the risk management by IORPs providing defined contribution schemes

The European Insurance and Occupational Pensions Authority (EIOPA) launched today two consultations on risk assessment by Institutions for Occupational Retirement Provisions (IORPs) providing defined contribution (DC) schemes and the supervisory reporting of costs and charges by IORPs.

Other publications of interest

Others

TAX

(22/04/2021) Fed – Agencies invite comment on proposed rule for income tax allocation agreements

The Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (Fed), and the Federal Deposit Insurance Corporation (FDIC) have invited comment on a proposed rule that updates and codifies existing guidance on income tax allocation agreements involving depository institutions and their affiliates.

MYSTERY SHOPPING

(03/05/2021) EBA – The European Banking Authority publishes report on mystery shopping activities of national authorities

The EBA has published a Report on the mystery shopping activities of National Competent Authorities (NCAs). The Report covers mystery shopping initiatives of NCAs in respect of the following products: i) consumer credit; ii) mortgage credit; iii) deposits; iv) payment services; v) electronic money; and vi) payment accounts.

PENSIONS

(04/05/2021) PRA – CP21/11: The stronger nudge to pensions guidance

The Prudential Regulation Authority (PRA) has published the Consultation Paper (CP) 21/11 on pensions guidance. The CP contains proposals for implementing a stringer nudge to pensions, and further measures to help consumers make informed decisions. The consultation runs until 29 June 2021.

AML/CFT

(06/05/2021) EBA – The EBA consults on its proposals for a central AML/CFT database

The EBA has published a discussion paper to facilitate the review of the standardised NPL data templates. The discussion paper invites all stakeholders and NPL market participants on the buyer and seller side to provide their input. The consultation runs until 31 August 2021.

CONSUMER DUTY

(14/05/2021) FCA – CP21/13: A new Consumer Duty

The Financial Conduct Authority (FCA) has issued a Consultation Paper 21/13 which contains the FCA´s proposals on a new Consumer Duty, that would set higher expectations for the standard of care that firms provide to consumers. For many firms, this would require a significant shift in culture and behavior, where they consistently focus on consumer outcomes, and put customers in a position where they can act and make decisions in their interests.

DIGITAL ASSETS

(17/05/2021) FDIC – FDIC Issues Request for Information on Digital Assets

The Federal Deposit Insurance Corporation (FDIC) announced that it is gathering information and soliciting comments from interested parties about insured depository institution' current and potential digital asset activities. Given that banks are increasingly exploring the emerging digital asset ecosystem, the FDIC is issuing this request for information to help inform its understanding of the industry's and consumers' interests in this area.

CONTRACT ADMENDMENTS

(19/05/2021) BoE – Derivatives clearing obligation – modifications to reflect interest rate benchmark reform: Amendments to BTS 2015/2205

The Bank of England (BoE) has published the Consultation Paper 2015/2205 which sets out the Bank of England's proposal to modify the scope of contracts which are subject to the derivatives clearing obligation to reflect the ongoing reforms to interest rate benchmarks.This CP is relevant to financial and non-financial counterparties that are subject to the clearing obligation under EMIR, and to central counterparties (CCPs).

CROSS-BORDER DISTRIBUTION OF FUNDS

(27/05/2021) ESMA – ESMA publishes guidance on funds' marketing communications

The European Securities and Markets Authority (ESMA) has published the final report on the guidelines on marketing communications under the Regulation on cross-border distribution of funds.

Other publications of interest

Others

SFTR

(28/05/2021) ESMA – ESMA consults on Guidelines for data transfer between trade repositories under EMIR and SFTR

The ESMA has launched a consultation on amendments to its Guidelines on data transfer between Trade Repositories (TRs) under EMIR, as well as on Guidelines regarding data transfer between TRs under Securities Financing Transactions (SFTR).

Cross-border payments

(31/05/2021) FSB – FSB seeks feedback on its proposals for quantitative targets for enhancing cross-border payments

The Financial Stability Board (FSB) has published a public consultation on global targets for addressing the four challenges of cross-border payments. The proposed targets set goals for improving cost, speed, transparency and access for cross-border payments in the coming years through the actions taken under the Roadmap.

Transfer of funds

(01/06/2021) Fed – Federal Reserve Board invites public comment on proposed rule to govern funds transfers over the Federal Reserve Banks' FedNow Service

The Federal Reserve Board (Fed) invited comment on a proposed rule to govern funds transfers over the Federal Reserve Banks' FedNow Service. The proposed rule would establish a new and comprehensive set of rules governing funds transfers over the FedNow Service and set out the legal rights and obligations of the Reserve Banks and FedNow Service participants.

LIBOR

(02/06/2021) FSB - FSB issues statements to support a smooth transition away from LIBOR by end 2021

The Financial Stability Board (FSB) has published a set of documents to support a smooth transition away from LIBOR by the end of 2021. The statements and reports published by the FSB include: i) an updated global transition roadmap; ii) a paper reviewing overnight risk-free rates and term rates; iii) a statement on the use of the Swaps and Derivatives Association (ISDA) spread adjustments; iv) a statement on smooth and timely transition away from LIBOR.

Investment frims

(07/06/2021) EBA – Consultation paper on draft RTS on the reclassification of investment firms as credit institutions

The EBA launched today a consultation on its draft regulatory technical standards (RTS) on the calculation of the threshold for investment firms. With this consultation, the EBA is seeking to address the level playing field concerns raised by the industry in relation to geographical constraints of some undertakings a well as to ensure a more proportionate and consistent methodology for the calculation of the thresholds. The consultation runs until 17 July 2021.

ECAI

(10/06/2021) ESAs – ESAs publish amended technical standards on the mapping of ECAIs

The European Banking Authority (EBA), the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA), has published two amended Implementing Technical Standards (ITS) on the mapping of credit assessments of External Credit Assessment Institutions (ECAIs). The amendments reflect: i) the recognition of two new credit rating agencies (CRAs); ii) the outcome of a monitoring exercise on the adequacy of existing mappings; and iii) the deregistration of a number of CRAs.

Régimen de permisos temporales

(14/06/2021) PRA – PRA statement on firm authorisation under the Temporary Permissions Regime

The Prudential Regulation Authority (PRA) has published an statement on firm authorisation under the Temporary Permissions Regime (TPR) which provides an update on the PRA's approach to TPR, relevant to applications for authorisation made by banks and insurers in the European Economic Area (EEA).

Bail-in

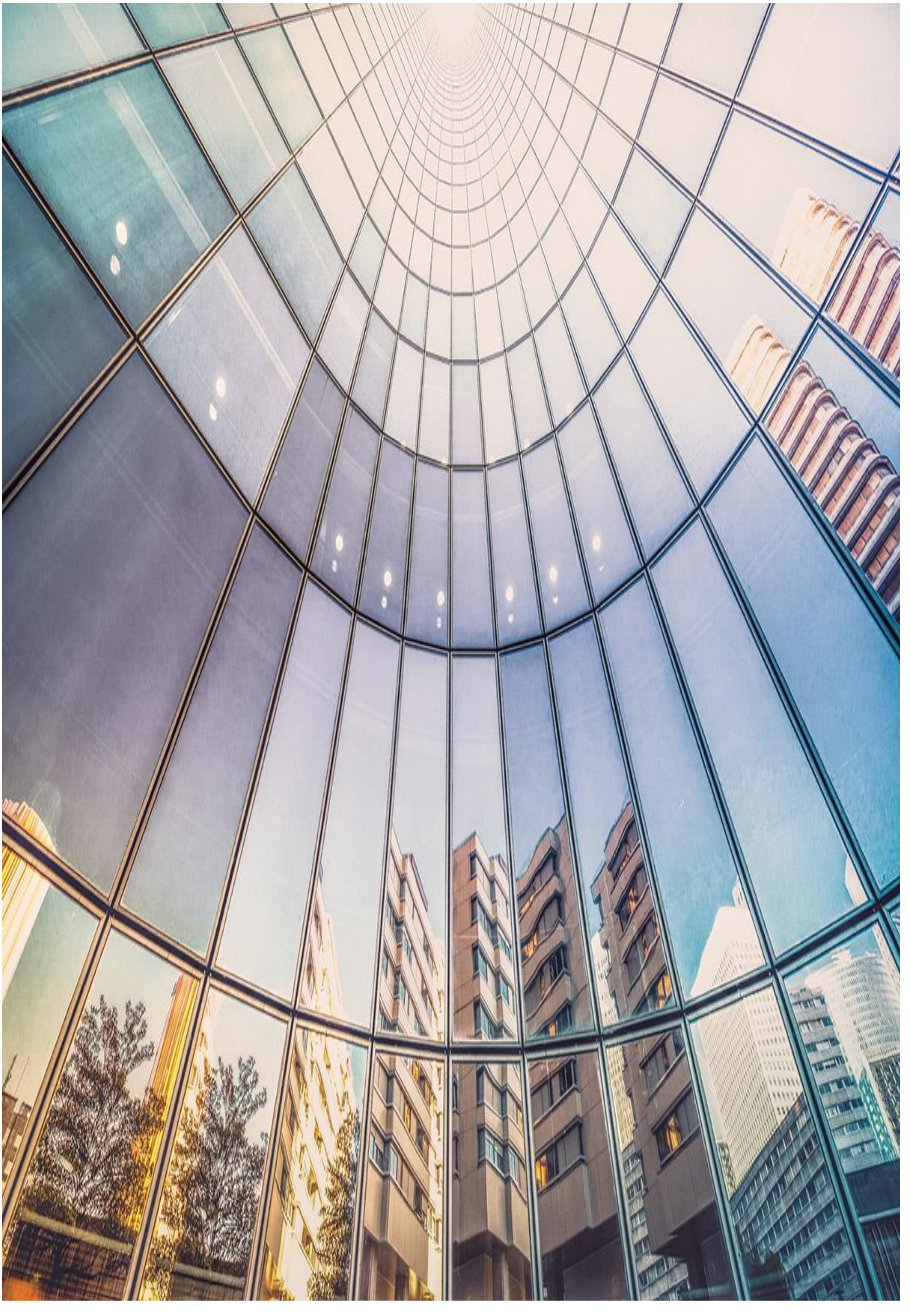
21/06/2021) SRB – SRB publishes approach for notifying impracticability to include bail-in recognition clauses in contracts

The Single Resolution Board (SRB) has published its policy on how banks can notify the authorities when bail-in recognition clauses cannot be added to contracts under third-country law. This explains how the SRB will apply, in practice, the rules set out in contractual recognition of bail-in of the Bank Recovery and Resolution Directive (BRRD).

Margin requirements

(30/06/2021) PRA - PS14/21 | CP6/21 - Margin requirements for non-centrally cleared derivatives: Amendments to BTS 2016/2251

The Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) have published the Policy Statement (PS) 14/20 which provides feedback to the responses received to the Consultation Paper (CP) 6/21 on Margin requirements for non-cleared derivatives. The responses to the CP were supportive in general and this Policy Statement includes clarifications to the text.



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