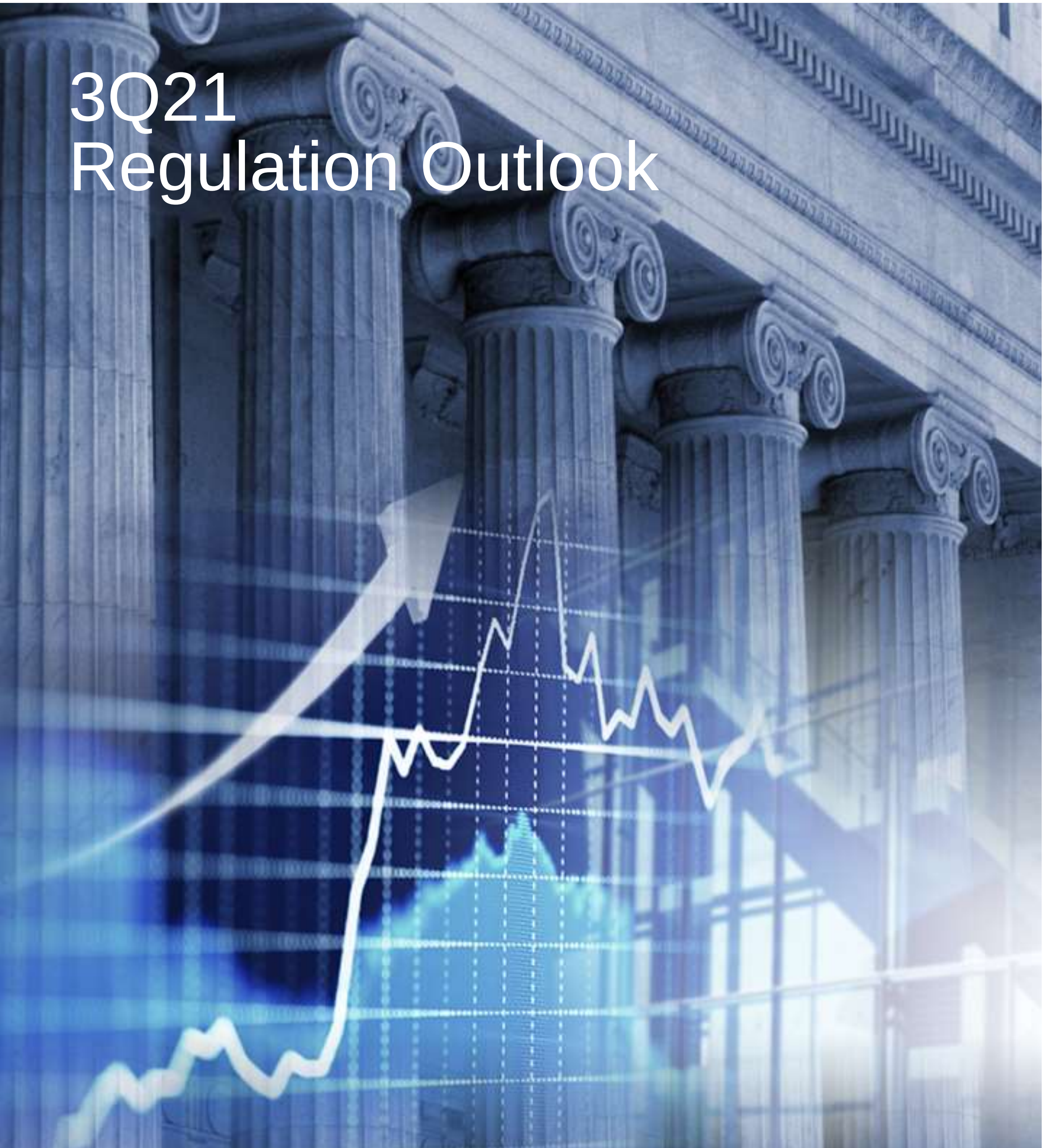
3Q21 Regulation Outlook



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Executive Summary

In the third quarter of 2021, the publication of the EC Delegated Act supplementing the Taxonomy at the European level is noteworthy, as well as the EP and Council Regulation establishing the framework for achieving climate neutrality. At the local level, the draft Circular to financial credit institutions on liquidity, prudential rules and reporting obligations of the BoS stands out

European publications

- The EC has published the **Delegated Act supplementing Article 8 of the Taxonomy Regulation** specifying the content, methodology and presentation of information to be disclosed by large financial and non-financial companies on the share of their business, investments or lending activities that are aligned with the EU Taxonomy.

- The EC has published **a legislative proposal to amend the Solvency II**, which aim is to strengthen European insurers' contribution to the financing of the recovery, progressing on the Capital Markets Union and the channeling of funds towards the European Green Deal.

- The EP and the Council have published the **Regulation establishing the framework for achieving climate neutrality** with the objective of establishing a framework for the progressive and irreversible reduction of greenhouse gas emissions by sources and the enhancement of greenhouse gas removals by sinks under EU law. The Regulation establishes a binding EU climate neutrality objective by 2050, with the aim of achieving the long-term temperature objective set out in the Paris Agreement.

- The EBA has published its final **Guidelines to assess breaches of the large exposure limits**, with the purpose to provide guiding principles to help competent authorities to decide whether the exceptional circumstances leading to a breach of the large exposure limits would justify allowing an institution a limited period of time in which to comply with the limit.

- The ECB has published the final **results of its wide climate stress test**, which show that companies and banks benefit from adopting green policies in order to foster a transition to a sustainable, zero-emission economy. The exercise reveals that an orderly and rapid transition minimizes costs and maximizes profits and offsets the short-term cost of transitioning to a zero-carbon economy.

- The EBA has published its **revised Guidelines on internal governance** which also take into account the amendments introduced by CRD V and the Investment Firms Directive in particular with regard to gender diversity, money laundering, financing terrorist risk and the management of conflicts of interest.**.**

Local publications

- The BoS has launched the public consultation on the **draft circular to financial credit institutions on liquidity, prudential rules and reporting obligations**, with the aim of completing the regulations for financial credit institutions about liquidity and solvency reporting obligations.

- The FCA has published the **Consultation Paper on Diversity and inclusion on company boards and executive committees** with the aim to increase transparency by establishing better, comparable information on this aspect.

Regulatory projections

At the European level, the EBA is expected to publish the Final Draft RTS on the individual portfolio management of the portfolio of equity finance loans. EC is expected to publish the revised Markets in Financial Instruments Directive and Regulation. Furthermore, the EC is expected to publish the second Delegated Act of the Taxonomy Regulation in 2022

Featured regulatory projections

1. Next quarter

- **(Europe) Q4 2021**
  - The EIOPA is expected to publish: i) the Enhanced Methodological Framework for the bottom-up IORPs Stress Tests; ii) the Impact Assessment and Consultation Paper on IBOR Transition; iii) The revised implementing regulations of the Reporting and Disclosure Commission following the Solvency II 2020 review.
  - The EBA is expected to publish: i) the RTS on the method for calculating the nominal amount of the undrawn part of a liquidity facility; ii) ITS on the allocation of the credit assessment of external institutions for securitisation positions; iii) the GL on the practices of the hierarchy of approaches for the calculation of risk weights; vi) revised guidelines on the collection of data from high-income individuals under the CRD and revised guidelines on benchmarking remuneration practices; v) the second revision of the GL on common procedures and methodologies for SREP; vi) the RTS on instruments exposed to residual risk; vii) the RTS on gross jump-to-default; viii) GL specifying the exceptional circumstances in which large exposures limits may be breached, and the remedial actions to be taken.
  - The EC is expected to publish the revised Markets in Financial Instruments Directive and Regulation.

2. Next year

- **(Europe) 2022**:
  - It is expected that the EC would publish the second Delegated Act in relation to the four remaining objectives of the EU taxonomy regulation.
- **(Spain) 2022**:
  - The Royal Decree implementing Article 32 of Law 7/2021, of May 20, on climate change and energy transition, is expected to be published.
- **(Europe) Q1 2022:**
  - The EBA is expected to publish: i) The RTS on standardised and simplified methodologies for the IRRBB; ii) the RTS on supervisory shock scenarios and outlier tests for the IRRBB; iii) the GL on the IRRBB and the CSRBB; and iv) the Multi-annual work programme (2023-2025 horizon).
- **(UK) January 2022**:
  - The BoE expects to run a second round on the Climate Biennial Exploratory Scenario.
- **(Europe) 2Q 2022**:
  - The EBA is expected to publish: i) the RTS on liquidity risk measurement of Investment firms; ii) the GL on common SREP under IFD; iii) the RTS on Pillar 2 add-ons under IFD; iv) the GL on high earners under CRD; and v) the GL on high earners under IFD.
- **(UK) May 2022**: The BoE expects to publish the CBES results.

2. Next year (cont.)

- **(Europe) 3Q 2022:**
  - The EBA is expected to publish: i) the GL on benchmarking remuneration and gender pay gap under CRD and IFD; and ii) the Final Guidelines on digital identities and electronic onboarding.
- **(Europe) 4Q 2022:**
  - The EBA is expected to publish: i) the GL on the benchmarking of internal models; ii) the GL on ESG risk management; iii) the ITS on reporting of the IRRBB; and iv) the Extension of ITS on Pillar 3 disclosures on ESG risks (full scope of ESG risks).
  - The EIOPA is expected to publish: i) the Taxonomy Regulation into requirements applicable to insurers and pension funds (e.g. into concrete supervisory requirements concerning the application of the Stewardship principle); ii) the Sustainable Finance Disclosure Regulation (SFDR) together with the other ESAs; and iii) the IORPs stress test 2022.

Application dates

1. Next year

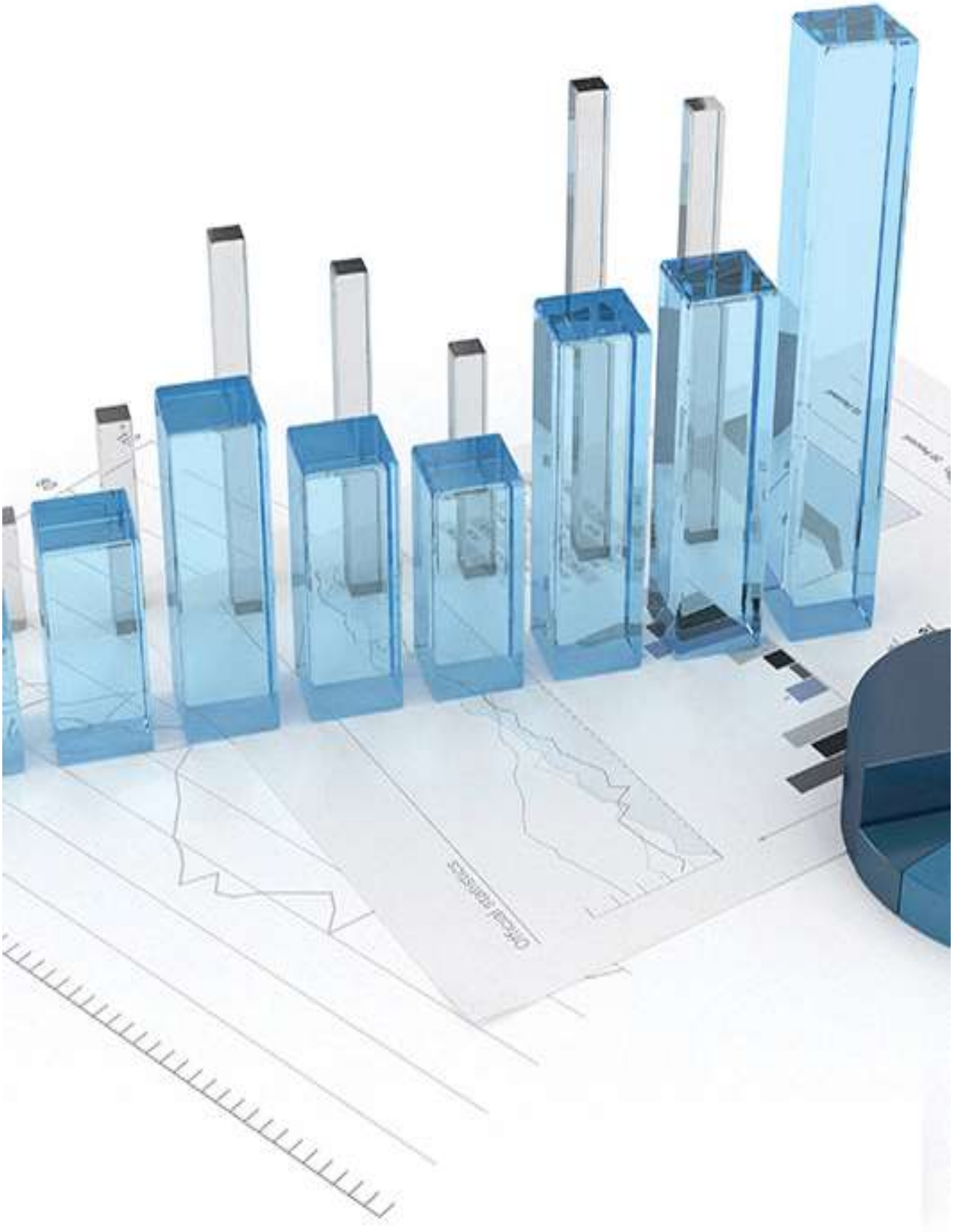
- **(Europe) 2022:**
  - The EBA Guidelines on remuneration policies, internal governance and assessment of suitability.
- **(Spain) 2022**:
  - The BdE's expectations regarding the risks arising from climate change and environmental degradation.
- **(Europe) January 2022**:
  - The EBA GL on IRB parameters estimation.
  - The EBA final RTS on an economic downturn as well as the GL for the estimation of LGD appropriate for an economic downturn.
  - The ESAs provisions regarding product disclosure in periodic reports RTS on ESG disclosure standards.
  - The EBA GL on CRM for institutions applying the IRB approach with own estimates of LGDs.
  - The EC Delegated Regulation on EU classification system for green investments.
  - The EBA Guidelines on large exposure breaches.
- **(UK) January 2022**:
  - The PRA PS 11/20 on credit risk: PD and LGD estimation.
- **(Europe) June 2022**:
  - The EBA Final draft comprehensive ITS on institutions’ Pillar 3 disclosures on ESG risks.
- **(Europe) July 2022:**
  - The EP and Council Directive (EU) 2019/2162 and Regulation (EU) 2019/2160 on exposures in the form of covered bonds.
- **(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.
- **(Europe) December 2022**:
  - The ammendment on the ITS of Supervisory Reporting.

2. More than a year

- **(Europe) 2023:**
  - Implementation of the provisions amending the CRR (exceptions to application on 2025) concerning: i) amendments in accordance with Regulation (EU) 2019/2033 on the prudential requirements of investment firms; ii) certain changes on definitions of entities to be included in the scope of prudential consolidation; iii) certain provisions concerning own funds and eligible liabilities (mainly amendments on CET 1 items and on deductions of Tier 2, and a new article on undertakings in third countries)
- **(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.
  - Most of the new disclosure requirements of the BCBS Pillar III updated framework.
  - The BCBS technical amendment on the capital treatment of securitisations of NPLs.
  - The amendments to IFRS 17 proposed by the IASB.
- **(Europe) January 2024**:
  - EBA Guidelines on Resolvability.
- **(Europe) 2025:**
  - General application of the provisions amending the CRR which introduce revisions to the Basel III framework in Europe.
  - Member States shall adopt and publish the regulations and administrative provisions necessary to comply with CRD IV amendments.

Quarterly publications

Summary of outstanding publications of this quarter



EUROPEAN COMMISSION

09/07/2021
Delegated Act supplementing Article 8 of the Taxonomy Regulation, Sustainable Finance Strategy and proposal for a European Green Bond

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. This Regulation empowers the EC to adopt delegated acts to determine the technical screening criteria for the climate targets listed therein and to specify the information to be disclosed by non-financial and financial undertakings.

In this context, the EC has published **the Delegated Act supplementing Article 8 of the Taxonomy Regulation** specifying the content, methodology and presentation of information to be disclosed by large financial and non-financial companies on the share of their business, investments or lending activities that are aligned with the EU Taxonomy. In addition to the Delegated Act, the EC has published a proposal for an **EU green bond standard** that will create a high quality voluntary standard for bonds financing sustainable investments and a **new sustainable finance strategy** that sets out several initiatives to tackle climate change.

2. Main points

EU Taxonomy Climate Delegated Act supplementing article 8 of the Taxonomy Regulation

- **Content and presentation of the information that should be disclosed.** The Delegated Regulation covering the Key Performance Indicators (KPIs) and related methodologies focuses on the disclosure of information on how and to what extent the undertaking's activities are associated with economic activities that qualify as environmentally sustainable. The disclosure of information applies to: i) non-financial undertakings, ii) asset managers; iii) credit institutions; iv) investment firms; and v) insurance and reinsurance undertakings.
- **Disclosure rules common to all financial undertakings.** The exposures to central governments, central banks and supranational issuers shall be excluded from the calculation of the numerator and denominator of KPIs of financial undertakings. Also, derivatives shall be excluded from the numerator of KPIs of financial undertakings.
- **Disclosure rules common to all financial and non-financial undertakings.** Financial undertakings and non-financial undertakings shall include additional disclosures accompanying the KPIs. The information to be disclosed shall cover the annual reporting period from the previous calendar year of the date of disclosure.
- **Entry into force.**
  - From 1 January 2022 until 31 December 2022, non-financial undertakings shall only disclose the proportion of Taxonomy-eligible and Taxonomy non-eligible economic activities in their total turnover, capital and operational expenditure.
  - From 1 January 2022 until 31 December 2023, financial undertakings shall only disclose:
    - The proportion in their total assets of exposures to Taxonomy **non-eligible** and **Taxonomy-eligible** economic activities.
    - The proportion in their total assets of the exposures to **central governments, central banks** and supranational issuers and of derivatives.
    - The proportion in their total assets of the exposures to undertakings that are **not obliged to publish non-financial information.**
    - The **qualitative disclosures** for asset managers, credit institutions, investment firms and insurance and reinsurance undertakings.
  - From 1 January 2023, the KPIs of non-financial undertakings shall be disclosed.
  - From 1 January 2024, the KPIs of financial undertakings shall be disclosed.

Regulation on European Green Bond Standard

- **European Green Bond Standard and requirements.** It sets out how companies and public authorities can use green bonds to raise funds on capital markets to finance investments, while meeting tough sustainability requirements. There are four key requirements in the proposed framework:
  - The funds raised by the bond should be allocated fully to projects aligned with the EU Taxonomy.
  - There must be full transparency on how bond proceeds are allocated.
  - All EU green bonds must be checked by an external reviewer to ensure compliance with the Regulation and that funded projects are aligned with the Taxonomy.
  - External reviewers providing services to issuers of EU green bonds must be registered with and supervised by the European Securities Markets Authority.

2. Main points (cont.)

EUROPEAN COMMISSION

Sustainable Finance Strategy

- Sustainable Finance Actions. The strategy includes 6 types of actions:
  - Extend the existing sustainable finance toolbox to facilitate access to transition finance.
  - Improve the inclusiveness of small and medium-sized enterprises (SMEs), and consumers, by giving them the right tools and incentives to access transition finance.
  - Enhance the resilience of the economic and financial system to sustainability risks.
  - Increase the contribution of the financial sector to sustainability.
  - Ensure the integrity of the EU financial system and monitor its orderly transition to sustainability.
  - Develop international sustainable finance initiatives and standards, and support EU partner countries.

3. Next Steps

- The Delegated Act will be transmitted for scrutiny by the EP and the Council for a period of **4 months.**
- The proposal for regulation of the EC will be submitted to the EP and Council as part of the co-legislative procedure.
- The EC will report on this strategy's implementation by the **end of 2023.**

23/07/2021
Anti-money laundering and countering the financing of terrorism rules

EUROPEAN COMMISSION

1. Context

The EC published in May 2020 an Action Plan for a comprehensive Union policy on AML and CFT which sets out the EC's commitments to strengthen EU standards in this area. To implement this action plan, the EC must carry out a package of legislative proposals.

In this context, the EC has published a **Regulation establishing a new EU AML/CFT Authority, a Regulation and Directive on AML/CFT**, and a revision of **Regulation on Transfers of Funds to trace transfers of crypto-assets**. The aim of this package is to improve the detection of suspicious transactions and activities, and to close loopholes to launder illicit proceeds or finance terrorist activities through the financial system.

2. Main points

Regulation establishing a new EU AML/CFT Authority

- **Main points.** The new EU-level Anti-Money Laundering Authority (AMLA) will be the central authority coordinating national authorities to ensure the private sector correctly and consistently applies EU rules. AMLA will also support Financial Intelligence Units (FIUs) to improve their analytical capacity around illicit flows and make financial intelligence a key source for law enforcement agencies. The AMLA will:
    - Establish a single integrated system of AML/CFT supervision across the EU.
    - Directly supervise some of the riskiest financial institutions that operate in a significant number of Member States.
    - Monitor and coordinate national supervisors responsible for other financial entities.
    - Support cooperation among national Financial Intelligence Units.

Regulation on AML/CFT

- **Main points.** This Regulation will harmonise AML/CFT rules across the EU and includes:
    - More detailed rules on Customer Due Diligence (CDD).
    - Rules in relation to the third country policy, by which the EC will identify third countries with significant strategic deficiencies in their national AML/CFT regimes and designated as 'high-risk third countries'.
    - The requirements applicable to persons who no longer hold prominent public functions.
    - Detailed rules are provided to identify the beneficial owner(s) of corporate and other legal entities.
    - Clearer rules are provided on how transactions to FIUs are to be identified.
    - A provision preventing traders in goods or services from accepting cash payments of over EUR 10 000 for a single purchase.

Directive on AML/CFT

- **Main points.** This Directive replace the 2015 Directive on ALM/CFT. Among the novelties, it can be highlighted:
    - The requirement on the EC to conduct periodically an assessment of AML/CFT risks at EU level is maintained, however with the frequency of the assessment extended to every four years.
    - The obligation on Member States to create and maintain mechanisms to allow identification of holders of bank accounts is continued, but Member States must notify to the Commission not only the characteristics of such mechanisms but the criteria governing which information is included in such registers.
    - Clarifications on the financial analysis function of FIUs and on their operational independence are included.

Revision on Regulation on Transfers of Funds to trace transfers of crypto-assets

- **Main points.** The proposed reform will extend AML/CFT rules to the entire crypto sector, obliging all service providers to conduct due diligence on their customers. The amendments will ensure full traceability of crypto-asset transfers, such as Bitcoin, and will allow for prevention and detection of their possible use for ALM or CFT. In addition, anonymous crypto asset wallets will be prohibited, fully applying EU AML/CFT rules to the crypto sector.

3. Next steps

- The legislative package will now be discussed by the European Parliament and Council.
- The future AML Authority should be operational in **2024**.

24/09/2021
Amendments to Solvency II Directive and new Insurance Recovery and Resolution Directive

EUROPEAN COMMISSION

1. Context

On January 2016, the Solvency II Directive entered into force. Since then, the EC monitored the application of the Directive and consulted extensively with stakeholders on possible areas for review. On February, the EC formally requested technical advice from EIOPA to prepare for the review of the Solvency II Directive. This technical advice was published on December 2020.

In this context, the EC has published **a legislative proposal to amend the Solvency II**, which aim is to strengthen European insurers' contribution to the financing of the recovery, progressing on the Capital Markets Union and the channeling of funds towards the European Green Deal. Furthermore, the EC has published a **legislative proposal for a new Insurance Recovery and Resolution Directive** which aim is to ensure that insurers and relevant authorities in the EU are better prepared in cases of significant financial distress.

2. Main points

<u>Proposal to amend the Solvency II Directive</u>

- **Main points.** The review of Solvency II Directive pursue to provide incentives for insurers to contribute to the long-term sustainable financing of the economy; improve risk-sensitivity and mitigate excessive short-term volatility in insurers' solvency positions. The main specific provisions of the proposal are
  - <u>Proporcionality</u>. Smaller insurers will be excluded from the scope of the Directive and will fall under national regimes. That is, entities whose annual gross written premium income does not exceed 15 million euros.
  - <u>Quality of supervision</u>. It is ensured that each refusal of an authorization to take up the business of insurance, including the reason, shall be notified to EIOPA.
  - <u>Reporting</u>. The reporting requirements for low-risk profile undertakings, is adapted to facilitate the access to exemptions and limitations on reporting for these entities.
  - <u>Long-term guarantee measures</u>. It introduces a new extrapolation method of the relevant risk-free interest rate term structure.
  - <u>Macro-prudential tools</u>. It introduces macroeconomic considerations on the Own Risk and Solvency Assessment by insurers.
  - <u>European Green Deal</u>. It introduces that insurers will have to identify any material exposure to climate change risks and, where relevant, to assess the impact of long-term climate change scenarios on their business.

<u>Proposal for a new Recovery and Resolution Directive</u>

- **Main points**. The proposal lays out a comprehensive set of measures, which aim to ensure that National resolution authorities are designated in each Member State and that have harmonised resolution tools and powers. The main provisions of the proposal are:
  - <u>Scope of application</u>. This proposal addresses crisis management in relation to all insurance and reinsurance undertakings established in the EU that are subject to the Solvency II framework.
  - <u>Set-up of resolution authorities</u>. It requires Member States to set up insurance resolution authorities, equipped with a minimum harmonised set of powers to undertake all the relevant preparatory and resolution actions.
  - <u>Resolution</u>. The proposal establishes resolution conditions. For example, An insurance or reinsurance undertaking should be placed in resolution when it is failing or likely to fail and there is no prospect that private sector alternatives or supervisory measures can avert failure.
  - <u>Relations with third countries</u>. To the extent that insurers in the EU are active in third countries and vice versa this proposal foresees cooperation between EU authorities and third country authorities.
  - <u>Penalties</u>. Member States should provide for administrative sanctions and other administrative measures to ensure compliance by insurers.

3. Next steps

- The legislative package will now be discussed by the European Parliament and Council.
- The Restructuring and Resolution Directive proposal requires Member States to transpose these provisions into national law within **18 months** from the entry into force of the Directive.

02/07/2021
European Regulation that stablishes the framework for achieving climate neutrality

1. Context

In November 2016, the Paris Agreement entered into force, setting a long-term temperature goal to strengthen the global response to the threat of climate change. In April 2020, the EP published its Resolution on the European Green Pact calling for the transition to a climate-neutral society to be undertaken by 2050 at the latest. The EP has also repeatedly called on the EU to strengthen its climate change target for 2030.

In this context, the EP and the Council have published the **Regulation establishing the framework for achieving climate neutrality** with the objective of establishing a framework for the progressive and irreversible reduction of greenhouse gas emissions by sources and the enhancement of greenhouse gas removals by sinks under EU law. The Regulation establishes a binding EU climate neutrality objective by 2050, with the aim of achieving the long-term temperature objective set out in the Paris Agreement.

2. Main points

- **Climate neutrality objective.** Emissions and removals of greenhouse gases covered by EU law will be in balance by 2050 at the latest, so that by that date net emissions must be reduced to zero, and thereafter the EU will aim to achieve negative emissions. The EU and Member States will take the necessary measures at EU and national level respectively to enable the collective achievement of the target.
- **Scientific advice on climate change**. The European Scientific Advisory Board on Climate Change was established in the European Environment Agency (EEA) Regulation and will serve as the EU's reference for scientific expertise related to climate change.
- **Intermediate EU climate targets**.
  - 2030 climate target. The EU's binding 2030 climate target will be a domestic reduction in net greenhouse gas emissions of at least 55% compared to 1990 levels.
  - 2040 climate target. An EU-wide 2040 climate target will be set within six months of the first global stocktake under the Paris Agreement.
- **Adaptation to climate change**. Relevant EU institutions and Member States will ensure continued progress in increasing adaptive capacity, strengthening resilience and reducing vulnerability to climate change. Member States will adopt and implement national adaptation strategies and plans, taking into account the EU strategy on adaptation to climate change. They shall take into account the particular vulnerability of relevant sectors, including agriculture, water and food systems and food security.
- **Assessment of progress**. The EC will evaluate no later than 30 September 2023:
  - Community progress. The collective progress made by all Member States towards achieving the climate neutrality objective.
  - National progress. National measures that have been identified as relevant to the achievement of the climate neutrality objective, national long-term strategies and biennial progress reports submitted in accordance with the EU Energy and Climate Action Governance Regulation.

3. Next steps

- The EP and the Council have adopted the European Climate Law, which will be signed and enter into force **20 days** after its publication in the Official Journal of the EU.

19/07/2021
Consultation Paper on draft Guidelines for reporting under EMIR

1. Context

On December 2020, the ESMA submitted to the European Commission (EC) draft Implementing Technical Standards (ITS) and Regulatory Technical Standards (RTS) under the EMIR REFIT Regulation. The report covers data reporting to Trade Repositories (TRs), procedures to reconcile and validate the data and access by the relevant authorities to data.

In this context, the ESMA has published the **Consultation Paper on draft Guidelines for reporting under EMIR** which complements the draft ITS and RTS and provides clarifications concerning responsibility for reporting, reporting logic and the correct population of fields for different reporting scenarios and different products.

2. Main points

- **Scope**. This Guidelines will apply to financial and non-financial counterparties, to trade repositories and to competent authorities.
- **General principles that apply to EMIR reporting**. This Guidelines provides high-level approaches to reporting. They include references to different action and event types to be used for reporting and provide guidance on reportability of derivatives. In addition, they incorporate clarifications on reporting in the case of voluntary delegation as well as under provisions on allocation of responsibility on reporting.
- **Reporting per product type**. The ESMA clarifies the reporting of specific products, such as swaptions, FX swaps and forwards, non-deliverable forwards (NDFs), contracts for difference (CFDs), or equity, credit and commodity derivatives.
- **Tables of fields to be reported under EMIR**. In order to provide more granular and detailed guidance on the reporting, the ESMA explains how the relevant fields for particular topics should be reported. The three main tables in which the fields are explained are on the following topics: i) counterparty data; ii) common data; and iii) all relevant types collateral data.
- **Guidelines on derivatives data management**. The ESMA includes guidance on topics such as generation of the Trade State Report, reconciliation, feedback on data quality and authorities’ access to data.

3. Next steps

- Comments to this consultation can be sent before **30 September 2021**.
- The final report on these Guidelines is expected to be published by the **end of 2021** or **early 2022.**

30/07/2021

Consultation on the amendments of supervisory reporting and disclosure requirements under Solvency II

1. Contexto

In December 2020, the EIOPA published the Opinion on the 2020 review of Solvency II which propose a number of amendments to ensure that the regulatory framework remains fit for purpose. However, there is a need to implement amendments to reporting requirements within the current legal framework, without waiting for the Solvency II review. EIOPA's analysis to maintain the adequacy of this framework has concluded that it is important to modify the reporting requirements without waiting for the Solvency II review because of the crucial improvements that these amendments would bring to insurers.

In this context, the EIOPA has published a **consultation on the amendments of supervisory reporting and disclosure requirements under Solvency II**. These proposed amendments involve changes to the EC Implementing Regulations published in 2015 on reporting and disclosure.

2. Principales aspectos

- **Disclosure.** The main changes to the EC implementing Regulation laying down ITS with regard to the procedures, formats and templates of the solvency and financial condition report, are:
    - Means of disclosure. A new section in relation to means of disclosure is added, and by which Insurance and reinsurance undertakings shall include in the same file the narrative part of the solvency and financial condition report and the templates referred to in this ITS.
    - Templates for the solvency and financial condition report of individual undertaking. Insurance and reinsurance undertakings shall publicly disclose as part of their solvency and financial condition report several templates. Some of these templates have been modified, such as the one specifying information on premiums, claims and expenses by country.
    - Consistency of information. Insurance and reinsurance undertakings, participating insurance and reinsurance undertakings, insurance holding companies or mixed financial holding companies are responsible for the quality of the information disclosed.
    - Entry into force. The entry into force of the Implementing Regulation is amended to 31 December 2022.
- **Reporting**. The main changes to the EC implementing Regulation laying down ITS with regard to the templates for the submission of information to the supervisory authorities, include:
    - Changes to the quantitative reporting templates for individual undertakings and groups. The proposals include the simplification of quarterly reporting for all undertakings, elimination of some reporting templates for all undertakings and new thresholds to promote better risk-based and proportionate reporting requirements.
    - Entry into force. The entry into force of the Implementing Regulation is amended to 31 December 2022.

    The changes proposed by the EIOPA will lead to: i) a reduction of reporting costs for the majority of insurance undertakings; ii) inclusion of information needed for supervisory purposes focusing on emerging risks; and iii) a more fit-for-purpose reporting.

3. Próximos pasos

- Los comentarios a este documento de consulta pueden enviarse antes del **17 de octubre de 2021**.

09/07/2021
Draft final report on Guidelines on assessment of suitability, internal governance and remuneration policies

1. Context

The EBA has published its **revised Guidelines on remuneration policies** which takes into account the amendments introduced by the fifth Capital Requirements Directive (CRD V) in relation to gender-neutral remuneration policies. Furthermore, the EBA has published its **revised Guidelines on internal governance** which also take into account the amendments introduced by CRD V and the Investment Firms Directive (IFD) in particular with regard to gender diversity, money laundering, financing terrorist risk and the management of conflicts of interest.

Finally, the EBA together with the European Securities and Markets Authority (ESMA) have published **their revised final joint Guidelines on the assessment of the suitability of members of the management body and key function holders**.

2. Main points

Draft final report on Guidelines on remuneration policies under CRD

- **Remuneration policies.** These Guidelines specify the requirements, governance arrangements and processes to be applied in relation to remuneration policies. The main new features are:
  - Gender-neutral remuneration policy. The Guidelines specify the sound and gender-neutral remuneration policies that institutions and investment firms should have in place for all their staff and for staff whose professional activities have a material impact on the institutions' risk profile.
  - The remuneration framework. This framework applies on a consolidated basis to financial institutions that are subject to a specific remuneration framework (for example, firms subject to the Investment Firms Directive (IFD), the Undertakings for Collective Investment in Transferable Securities Directive (UCITS), or the Alternative Investment Fund Managers Directive (AIFMD)).
  - Severance payments and retention bonuses. The Guidelines revised the section on severance payments, in particular there are included new situations under which additional payments are allowed.

Draft final report on Guidelines on internal governance under CRD

- **Internal governance.** These Guidelines specify the internal governance arrangements, processes and mechanisms that institutions and investment firms should implement to ensure their effective and prudent management. The main novelties include:
  - Money laundering and terrorist financing. These Guidelines clarify that identifying, managing and mitigating money laundering and financing of terrorism risk is part of sound internal governance arrangements and credit institutions' risk management framework.
  - Loan framework regarding loans to members of the management body. The EBA is providing guidance on how to properly manage loans to members of the management body which may constitute a specific source of actual or potential conflict of interest and other transactions with members of the management body and their related parties.
  - Gender diversity. The EBA is providing guidance on the code of conduct to ensure that credit institutions take all necessary measures to avoid any form of discrimination and guarantee equal opportunities to staff of all genders. In addition, institutions should monitor the gender pay-gap.

Draft final report on joint EBA and ESMA Guidelines on the assessment of suitability

- **Assessment of suitability.** The Guidelines provide common criteria to assess the individual and collective knowledge, skills and experience of members of the management body as well as their good repute, honesty and integrity, and independence of mind. The main novelties include:
  - Money laundering and terrorist financing. These Guidelines clarify that assessing the knowledge, experience and skill requirements of the management body include identifying, managing and mitigating money laundering and financing of terrorism risks.
  - Composition of the management body. Institutions should respect the principle of equal opportunities for any gender and take measures to improve a more gender balanced composition of staff in management positions.
  - Recovery and resolution framework. These Guidelines ensure that during resolution, the suitability of newly appointed members of the management body is conducted in an appropriate timeframe, considering the urgency of the situation, and that there is an appropriate interaction between competent authorities and resolution authorities.

3. Next steps

- The EBA Guidelines on remuneration policies, internal governance and assessment of suitability apply from **31 December 2021.**

20/09/2021
Revised Guidelines on the stress test of DGSs and Guidelines on large exposure breaches

1. Context

The EBA has published the revised **Guidelines on the stress tests of deposit guarantee schemes (DGSs)** with the aim of harmonizing the approaches across Member States, and enhancing the comparability of test results. These Guidelines are based on the conclusions and areas for improvement indicated in the peer review of the DGS stress test conducted by the EBA in 2020.

On the other hand, the EBA has published its final **Guidelines to assess breaches of the large exposure limits**, with the purpose to provide guiding principles to help competent authorities (CA) to decide whether the exceptional circumstances leading to a breach of the large exposure limits would justify allowing an institution a limited period of time in which to comply with the limit.

2. Main points

Final report on revised Guidelines on DGS stress tests

- **Objectives and content of DGS stress test.** These Guidelines specify the minimum principles and content of stress tests that deposit guarantee schemes must perform. The main new features of this Guidelines are the following:
    - DGSs are required to stress test their ability to perform all the interventions allowed under their legal mandates, and to access all of their funding sources.
    - The cooperation between DGSs and other authorities is strengthened, by requiring DGSs to stress test scenarios where such cooperation is necessary.
    - There are included extra stress scenarios and extra indicators to encourage the DGSs to stress test scenarios with additional business continuity challenges. Although the list provided is not exhaustive, some examples are pandemics, ICT failures or other similar events. Furthermore, on a voluntary bases DGSs can add extra indicators as they deem relevant.

Final Report on Guidelines to assess breaches of the large exposure limits

- **Large exposures**. The Guidelines clarify that any breach of the large exposure limits of the CRR should always be considered as an exceptional case. To support CA in their assessment and harmonise the approach across the Single Market, the EBA has developed Guidelines with criteria to assess such breaches. CA should consider at least the following three criteria, whether:
    - The breach was a rare event.
    - The institution couldn't foresee the event when it had applied a proper and effective risk management.
    - It was caused by reasons beyond the institution's control.

If the breach does not fulfil those criteria, the CA should not grant the institution more than three months to restore compliance with the large exposure limit. Likewise, the Guidelines provide CA with a set of criteria to determine the appropriate time that they could grant institutions to return to compliance with the large exposure limits. When an institution is granted more than three months to comply with the limits, it should present a compliance plan to the CA with a number of measures.

3. Next steps

- The EBA Guidelines on the DGS stress test will apply from **15 September 2021**. The EBA Guidelines on large exposure breaches will apply form **1 January 2022.**

EUROPEAN CENTRAL BANK
EUROSYSTEM

24/09/2021
Economy-wide climate stress test results

1. Context

In March 2021, the ECB published the preliminary results of the first economy-wide climate stress test to assess the exposure of euro area banks to future climate risks by analysing the resilience of their counterparties under various climate scenarios.

In this context, the ECB has published the final **results of its wide climate stress test**, which show that companies and banks benefit from adopting green policies in order to foster a transition to a sustainable, zero-emission economy. The exercise reveals that an orderly and rapid transition minimizes costs and maximizes profits and offsets the short-term cost of transitioning to a zero-carbon economy.

2. Main points

- **Methodological framework**. The climate stress test provides a comprehensive methodology for assessing the impact of alternative scenarios over a 30-year time horizon. It is a top-down exercise, as it relies solely on internal datasets and models, and has been conducted centrally by ECB staff
- **Scenarios**. The ECB's economy-wide climate stress test applies three main scenarios which differ from one another in their associated levels of transition risk and physical risk.
    - Orderly transition scenario. Policy measures are well calibrated so that transition costs and physical risk are limited. This is the best scenario in terms of potential economic impact.
    - Hot house scenario. No regulation or policy to limit climate change is introduced, leading to extremely high physical risks resulting in very limited transition costs and extremely high natural catastrophe costs.
    - Disorderly transition scenario. This implies a delay in the implementation of necessary climate policy measures. The transition risks and their associated costs are significant, and the climate policy measures are introduced abruptly.
- **Macroeconomic and climate projections under the scenarios**.
    - Real GDP. The projected levels of real GDP in the adverse scenarios are below those in the orderly transition scenario, and these differences widen over the forecast horizon.
    - Greenhouse gas emissions. Projected levels of carbon emissions under the hot house world scenario are well above those under the baseline scenario over the entire forecast horizon.
    - Energy prices. Green energy production would be relatively more efficient in the orderly transition scenario, which would allow energy prices to rapidly adopt a downward trend. This would mean that energy prices in the baseline scenario would eventually fall below those associated with the hot house scenario.
- **Conclusions**. The early adoption of policies to drive the transition to a zero-carbon economy brings benefits in terms of investing in and rolling out more efficient technologies. The results show that when comparing the effects of transition and physical risks, the latter would be more important in the long run, especially if transition policies towards a more sustainable economy are not introduced. The results also show that impact on banks' expected losses is mostly driven by physical risk and is potentially severe. Finally, if climate risks are not mitigated, the costs to companies arising from extreme weather events could rise substantially, and greatly increase their probability of default.

3. Next steps

- The results and methodology will inform the **2022** supervisory climate stress test for the banks that the ECB directly supervises.

BANCO DE ESPAÑA
Eurosistema

14/07/2021
Proyecto de Circular a los establecimientos financieros de crédito sobre liquidez, normas prudenciales y obligaciones de información

1. Context

Royal Decree 309/2020 on the legal regime for credit financial institutions stipulates that the BoS is to develop the solvency and shareholding structure reporting requirements. It also establishes that the BoS is to determine the specific cases in which credit financial institutions must carry out the annual internal capital self-assessment report (IAC) and the BoS the supervisory review and evaluation (SREP).

In this context, the BoS has launched the public consultation on the **draft circular to financial credit institutions on liquidity, prudential rules and reporting obligations**, with the aim of completing the regulations for financial credit institutions with regard to liquidity and solvency reporting obligations.

2. Main points

- **Scope of application.** This Circular applies to credit financial institutions, to consolidable groups of credit financial institutions with a parent company in Spain and to single liquidity sub-groups of credit financial institutions.
- **Liquidity regulation. They are set up:**
    - Liquidity buffer rules concerning: i) the composition and calculation of the buffer; ii) general impediments to asset liquidity; iii) the operational management of liquid assets; iv) asset valuation rules; v) the consequences of non-compliance with liquid asset eligibility requirements; vi) alternative approaches to liquidity treatment; vii) liquidity outflows and inflows; and viii) the minimum value of the buffer.
    - Rules relating to the structure of funding sources as regards: i) the net stable funding ratio and the general rules for its calculation; ii) the calculation of available stable funding; and iii) the calculation of required stable funding.
- **Regulation on financial credit institutions.** It sets out the circumstances under which credit financial institutions must carry out the annual internal capital self-assessment report and the BoS the supervisory review and evaluation.
- **Solvency reporting obligations to the BoS.** Provisions are included relating to the information that institutions must provide to the BoS in relation to the composition of the assets, liabilities and equity reflected in their financial statements and, where applicable, of other balances which, although not reflected, are used in the calculation of own funds and their requirements.
- **Authorisation of financial credit institutions.** The guarantees required for the authorisation of financial credit institutions subject to the control of foreign persons are established.

3. Next steps

- Comments to this public consultation can be submitted until **30 July 2021.**
- This Circular will enter into force **three months after** its publication in the Official State Journal (BOE).

19/07/2021
Business Plan 2021/22

1. Context

The FCA has adopted the Business Plan 2021/22 which sets its main priorities around three main objectives focusing on consumers, the wholesale market and markets in general.

2. Main points

- **Consumer priorities. Focuses on**:
  - Enabling consumers to make effective investment decisions. The Consumer Investments Strategy will be published.
  - Ensuring consumer credit markets work well. Competition will be promoted by monitoring how firms support customers in financial difficulty and take action where needed.
  - Making payments safe and accessible. The FCA will work with the Government and industry to maintain access to cash.
  - Delivering fair value in a digital age. A digital markets strategy will be developed and harmful business practices will be investigated and stopped.
  - New consumer duty. Responses to the Consultation Paper on a new consumer duty will be considered in order to help that firms put their customers' interests at the centre of their business models.
- **Wholesale market priorities.** Focuses on:
  - Reviewing rules in primary and secondary markets. The FCA rules will be better adapted to suit UK markets, while maintaining high and internationally consistent standards.
  - Completing the transition from LIBOR. The FCA will help to ensure that Firms and markets complete an orderly transition away from LIBOR.
  - Tackling market abuse and financial crime. The FCA will help to prevent market abuse and reduce the risks of financial crime by continuing to allocate significant resource to monitor the transactions in financial instruments reported.
  - Improving asset management and non-bank finance. There will be increased the supervision of whether asset managers present the environmental, social and governance (ESG) properties of funds fairly, clearly and in ways that are not misleading.
- **Priorities across all markets**. Focuses on:
  - Diversity and inclusion. The FCA will continue to publish key indicators of diversity.
  - ESG. The Government's commitment to achieving a net-zero economy by 2050 will be supported by adapting the FCA's regulatory framework.
  - International priorities. International cooperation with other supervisors and global standard-setting bodies will be maintained.
  - Financial resilience. The Investment Firms Prudential Regime for investment firms will be introduced.
  - Operacional resilience. Firms' progress in implementing the operational resilience requirements will be assessed and areas for improvement will be identified.

20/07/2021
Diversity and inclusion on company boards and executive committees

1. Context

In 2012 the European Commission (EC) proposed a Directive which would require a quota of 40% for women's representation on listed company boards. However, this proposal did not receive sufficient support in the European Council. In 2020, in the US, NASDAQ proposed to the Securities Exchange Commission (SEC) a new listing rule to require all companies on NASDAQ's US Exchange to publicly disclose consistent, transparent, diversity statistics on their board of directors. In addition to these proposals, there have also been moves to promote greater gender diversity in other jurisdictions. However, in the UK, the listing rules do not set explicit expectations on diversity of listed companies' boards.

In this context, the FCA has published the **Consultation Paper (CP) on Diversity and inclusion on company boards and executive committees** with the aim to increase transparency by establishing better, comparable information on this aspect.

2. Main points

- **New Listing Rule requirements**. The FCA is proposing to create new provisions within the Listing Rules for UK and overseas issuers with equity shares, or certificates representing equity shares, admitted to the premium or standard segment of the FCA's Official List. The targets that are being consulting on are:
  - At least 40% of the board should be women.
  - At least one of the senior board positions (Chair, Chief Executive Officer (CEO), Senior Independent Director (SID) or Chief Financial Officer (CFO)) should be a woman.
  - At least one member of the board should be from a non-White ethnic minority background (as referenced in categories recommended by the Office for National Statistics (ONS)).
- **Proposed amendments to disclosure guidance and transparency rules (DTRs) requirements.** The FCA proposes to require certain UK issuers admitted to UK regulated markets and to certain overseas listed companies, to disclose in their corporate governance statement the diversity policy applied to their board. This will involve:
  - Include how any diversity policies apply to the key committees of the board, specifically the committees on remuneration, audit and nominations.
  - Clarify that the aspects of diversity to which the diversity policy may relate could include, for example, ethnicity, sexual orientation, disability and socio-economic background.

3. Next steps

- Comments to this CP can be sent before 20 October 2020.
- Subject to the feedback to this CP, the FCA will aim to publish a Policy Statement before the end of 2021.

ECAI's

(01/07/2021) EBA - EBA confirms quality of unsolicited credit assessments

The EBA has published a revised Decision confirming the quality of unsolicited credit assessments assigned by certain External Credit Assessment Institutions (ECAIs) for calculating institutions' capital requirements. The revised Decision, which reflects the recognition of two additional ECAIs and the de-registering of three ECAIs.

SFT's

(01/07/2021) BCBS - Technical amendments - Minimum haircut floors for securities financing transactions

The Basel Committee on Banking Supervision (BCBS) for consultation two technical amendments to the chapter of the Basel Framework in relation which sets out the standard on minimum haircut floors for securities financing transactions (SFTs). The technical amendments address an interpretative issue relating to collateral upgrade transactions and correct for a misstatement of the formula used to calculate haircut floors for netting sets of STFs.

Regime for Investment Firms

(01/07/2021) EBA - EBA provides clarification on the implementation of the new prudential regime for investment firms

The EBA published an Opinion to ease the implementation of the Investment Firms Regulation (IFR) and Investment Firms Directive (IFD), which entered into force on June 26. The present Opinion provides clarity to both investment firms and their supervisors in the specific cases, where uncertainty about the relevant classification, and subsequent need for application for an authorisation as a credit institution, arises in the absence of the technical standards.

Leverage Ratio

(02/07/2021) BdE - El Banco de España determina que siguen concurriendo circunstancias macroeconómicas excepcionales que justifican la exclusión temporal de determinadas exposiciones frente a los bancos centrales del Eurosistema de la exposición total (denominador) de la ratio de apalancamiento

The Executive Commission of the Bank of Spain has determined that exceptional macroeconomic circumstances continue to exist, which justify that less significant Spanish credit institutions may exclude from the total exposure (denominator) of the leverage ratio certain exposures to Eurosystem central banks. In particular, they may exclude: i) coins and banknotes that are legal tender in the central bank's jurisdiction, and ii) assets representing claims on the central bank.

Investments Firms

(05/07/2021) PRA - CP15/21 – Designating investment firms

The PRA has published the CP 15/21 which sets out the PRA's proposals to make minor changes to its policy on designating investment firms. This includes a proposal to increase the base capital resources requirement for PRA-designated investment firms

Mortgage Risks

(06/07/2021) PRA - PS16/21 - Internal Rating Based UK mortgage risk weights: Managing deficiencies in model risk capture

This PRA has published the Policy Statement (PS) which provides feedback to responses to the Consultation Paper (CP) 14/20 on Internal Ratings Based UK mortgage risk weights. In particular, the PRA will not introduce the proposed 7% minimum risk weight expectation on individual UK mortgage exposures.

Solvency II

(08/07/2021) PRA - CP11/21 – Review of Solvency II: Reporting (Phase 1)

The Prudential Regulation Authority (PRA) has published the Consultation Paper (CP) 11/21 which sets out the PRA's proposed changes to the Solvency II reporting requirements and expectations. The main changes affect to: i) Solvency II Quantitative Reporting Templates (QRTs); ii) to the minimum capital requirements (MCR) reporting frequency. Comments to this consultation can be sent before 8 October 2021.

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Other publications of interest

Capital, liquidity and leverage

REGULATION FOR FINANCIAL INSTITUTIONS

(09/07/2021) BdE - Proyecto de Circular a los establecimientos financieros de crédito, sobre liquidez, normas prudenciales y obligaciones de información, y que modifica a la Circular 1/2009 y la Circular 3/2019

The Banco de España (BdE) has launched the public consultation of the draft circular to financial credit institutions, on liquidity, prudential rules and reporting obligations, with the aim of completing the regulation of financial credit institutions with regard to liquidity and solvency reporting obligations

DERIVATIVES

(09/07/2021) ESMA - ESMA consults on derivatives clearing and trading obligations in view of the benchmarks transition

The ESMA has launched a consultation on the review of the regulatory technical standards (RTS) specifying classes of derivatives subject to the clearing (CO) and trading obligations (DTO). The overall aim of this consultation is to amend the scope of both the CO and the DTO to accompany the benchmark transition for OTC derivatives

CCP

(12/07/2021) ESMA - ESMA launces public consultations on CCP Recovery Regime

The European Securities and Markets Authority (ESMA) has launched seven public consultations to gather stakeholder feedback on how to implement its central counterparty (CCP) recovery mandates. ESMA's recommendations support the development of CCP recovery plans that are aimed at safeguarding financial soundness of CCPs without the need for public financial support in crisis situations.

SOLVENCIA II

(14/07/2021) EIOPA – Consultation Paper on the revision of the Guidelines on contact boundaries of insurance and reinsurance contracts/Consultation Paper on the revision of the Guidelines on Valuation of Technical Provisions

The European Insurance and Occupational Pensions Authority (EIOPA) launched two consultations on the revision of the Solvency II Guidelines on contract boundaries and the valuation of technical provisions. The first Guidelines focuses on the unbundling of an insurance and reinsurance contract and the assessment whether a financial guarantee or a cover has a discernible effect on the economics of the contract. The second Guidelines, specify that where contracts with material options and guarantees exist, undertakings are expected to use a valuation method that captures the time value of these contracts.

TMTP

(19/07/2021) PRA - PRA statement on the recalculation of the Transitional Measure on Technical Provisions (TMTP)

The Prudential Regulation Authority (PRA) has published the statement on recalculation of the Transitional Measure on Technical Provisions (TMTP) which provides an update on the PRA's approach to the recalculation on the TMTP, relevant to PRA-regulated insurance firms.

LIQUID ASSETS

(19/07/2021) EBA – EBA consults to amend its technical standards on currencies with constraints on the availability of liquid assets

The European Banking Authority (EBA) has launched a public consultation on amendments to its Implementing Technical Standards (ITS) on currencies with constraints on the availability of liquid assets in the context of the liquidity coverage ratio (LCR). The proposed amendments remove the Norwegian Krone (NOK) from the list, with the result that no currency will be recognised as having constraints on the availability of liquid assets. The consultation runs until 16 October 2021.

G-SIB

(20/07/2021) BCBS – G-SIB assessment methodology review process

The Basel Committee on Banking Supervision has issued for consultation a proposal for a technical amendment to the Basel Framework. The amendment relates to the process used by the Committee to review the global systemically important banks (G-SIB) assessment methodology. The Committee plans to replace the existing three year review cycle with a process of ongoing monitoring and review.

DIVIDENDS

(23/07/2021) BCE – El BCE decide no prolongar la recomendación relativa al reparto de dividendos más allá de septiembre de 2021

The European Central Bank (ECB) has decided not to extend beyond September 2021 its recommendation that all banks limit dividends that it first addressed to banks in March 2020. Instead, supervisors will assess the capital and distribution plans of each bank as part of the regular supervisory process. This will mean that the next decisions to pay dividends should take place in the fourth quarter of 2021.

INVESTMENT FIRMS

(26/07/2021) PRA – PS21/9: Implementation of Investment Firms Prudential Regime

The Financial Conduct Authority (FCA) has published a PS on the UK Investment Firm Prudential Regime (IFPR), a single prudential regime for all FCA investment firms that simplifies the current aproach. The IFPR will shift the focus of prudential requirements and expectations away from the risks that firms face, to address the harm that firms can pose to consumers and markets.

IFRS

(28/07/2021) IASB – IASB proposes minor amendment to transition requirements for insurers applying IFRS 17 and IFRS 9 for the first time

El Consejo de Normas Internacionales de Contabilidad (IASB) ha propuesto una modificación de los requisitos de transición de IFRS 17 relativa a contratos de seguros para las entidades que apliquen por primera vez IFRS 17 e IFRS 9 a partir de 2023. Esta propuesta permitiría a estas aseguradoras abordar los desajustes contables temporales en la aplicación inicial de las nuevas normas.

IPUS

(28/07/2021) EBA – EBA publishes its final Guidelines on the monitoring of the threshold for establishing an intermediate EU parent undertaking

The European Banking Authority (EBA) has published its final Guidelines on the monitoring of the threshold and other procedural aspects on the establishment of intermediate EU parent undertakings (IPU) as laid down in the Capital Requirements Directive (CRD). The Guidelines specify how third country groups should calculate and monitor the total value of their assets in the Union in order to ensure timely application of the IPU requirement.

MIFID II/MIFIR

(28/07/2021) ESMA – ESMA published MIFID II/MIFIR annual review report on RTS 2

The European Securities and Markets Authority (ESMA) has published the MiFID II/MiFIR Annual Review Report in which the ESMA analyses whether it is appropriate to move to the following stage of the phase-in for the transparency requirements for both the average daily number of trades threshold used for the quarterly liquidity assessment of bonds, and for the pre-trade size specific to the instrument threshold for bonds.

O-SIIS

(29/07/2021) BdE - El Banco de España actualiza la lista de Otras Entidades de Importancia Sistémica y establece sus colchones de capital macroprudenciales para 2022

The Bank of Spain (BoS) has carried out the annual review of the designations and other systemically important institutions (O-SIIS) for 2022, establishing their associated capital buffers. The BoS has proceeded to designate four banks as O-SIIs with effect from 2022: Banco Santander, S.A; Banco Bilbao Vizcaya Argentaria, S.A; CaixaBank, S.A; Banco de Sabadell, S.A. These macro-prudential requirements aim to correct the possible competitive advantage that these institutions may have in the financing market due to their systemic relevance and to adapt their risk taking. In addition, the capital buffers help to strengthen the solvency of these institutions and to mitigate the adverse effects that they may have on the financial system at the global or national level.

MIFIR

(06/08/2021) FCA – A new UK prudential regime for MiFID investment firms

The Financial Conduct Authority (FCA) has published the Consultation Paper 21/26 on a new UK prudential regime for investment firms. The investment firm prudential regime (IFPR) simplifies the existing approach and seeks to cover the potential harm posed by these firms to their clients and the markets in which they operate. The comments to the consultation paper can be sent before 17 September 2021.

Other publications of interest

Capital, liquidity and leverage

SOLVENCY 2

(07/09/2021) PRA – Solvency II: Definition of an insurance holding company

The Prudential Regulation Authority (PRA) has published a Consultation Paper (CP) which sets out the PRA's approach to interpreting and applying the definition of an insurance holding company. The purpose of the CP is to distinguishing an insurance holding company from a mixed-activity insurance holding company. The comments to this paper can be sent before 6 December 2021.

INVESTMENT FRIMS

(05/07/2021) EBA - EBA publishes final draft technical standards to improve supervisory cooperation for investment firms

The EBA has published final draft regulatory technical standards (RTS) and Implementing Technical Standards (ITS) on cooperation and information exchange between competent authorities involved in prudential supervision of investment firms. These draft standards provide a solid framework for cooperation in the supervision of investment firm groups through colleges of supervisors and for information exchange for investment firms operating within the EU through branches or the free provision of services.

RISK MITIGATION

(12/07/2021) EIOPA - Opinion on the use of risk mitigation techniques by insurance undertakings

The EIOPA has published an Opinion on the use of risk mitigation techniques by insurance undertakings. Since the implementation of Solvency II new risk mitigation techniques such as new reinsurance structures have appeared in the European market and some existing ones started to gain more relevance. The Opinion therefore addresses the use of risk mitigation techniques and includes a set of recommendations addressed to national competent authorities (NCAs) to ensure convergent supervision.

CAPITAL

(12/07/2021) EIOPA - Supervisory statement on supervisory practices and expectations in case of breach of the Solvency Capital Requirement

The EIOPA has published the statement on supervisory practices and expectations in case of breach of the Solvency Capital Requirement (SCR). With this supervisory statement EIOPA aims to foster supervisory convergence in the situations where insurance and reinsurance undertakings breach their capital requirement, in particular addressing the recovery plan required.

RISK MANAGEMENT

(13/07/2021) Fed/FDIC/OCC - Agencies request comment on proposed risk management guidance for third-party relationships

The Federal Reserve Board (Fed), the Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC) have requested public comment on proposed guidance designed to help banking organizations manage risks associated with third-party relationships, including relationships with financial technology-focused entities.

RISK FACTORS

(13/07/2021) EBA - EBA publishes final Guidelines for the use of data inputs in the expected shortfall risk measure under the Internal Model Approach

The Federal Reserve Board (Fed), the Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC) have requested public comment on proposed guidance designed to help banking organizations manage risks associated with third-party relationships, including relationships with financial technology-focused entities.

RUN-OFF UNDERTAKINGS

(23/07/2021) EIOPA – Consultation on Supervisory Statement on supervision of run-off undertakings

The EIOPA has published for consultation a supervisory statement to ensure that a high-quality and convergent supervision is applied to run-off undertakings or portfolios that are subject to Solvency II regulation. Comments to the consultation can be sent before 17 October 2021.

SUPERVISION

(26/07/2021) PRA – PS19/21 | CP2/21- International banks: The PRA's approach to branch and subsidiary supervision

The EBA has launched a public consultation on draft regulatory technical standards (RTS) setting out criteria for the identification of shadow banking entities for the purposes of reporting large exposures. Comments to this consultation can be sent until 26 October 2021.

STRESS TEST

(30/07/2021) EBA – EBA publishes the results of its 2021 EU-wide stress test

The European Banking Authority (EBA) has published the results of its 2021 EU-wide stress test, which involved 50 banks from 15 EU and EEA countries, covering 70% of the EU banking sector assets. This exercise allows to assess, the resilience of banks over a three-year horizon under both a baseline and an adverse scenario, which is characterised by severe shocks taking into account the impact of the COVID-19 pandemic. Over the period, in the adverse scenario, the weighted average CET 1 capital ratio falls from 15.3% (15.0% fully loaded) at the end of 2020 to 10.3% (10.2% fully loaded) at the end of 2023.

(30/07/2021) ECB – Stress test shows euro area banking system resilient under challenging macroeconomic scenario

The European Central Bank (ECB) has published the results of the 2021 stress test which include banks that are part of the EU-wide stress test led by the EBA and other medium-sized ECB-supervised institutions. The results show that the euro area banking system is resilient to adverse economic developments. The CET1 capital ratio of the banks in the stress test would fall by an average of 5.2 percentage points, to 9.9% from 15.1%, if they were exposed to a three-year stress period marked by challenging macroeconomic conditions. These results would be taken into account by Supervisors when assessing banks' governance and risk management as part of the annual Supervisory Review and Evaluation Process (SREP).

FINANCIAL HOLDING COMPANIES

(15/09/2021) PRA - PS20/21 | CP12/21 - Financial holding companies: Further implementation

The Prudential Regulation Authority (PRA) has published a Policy Statement (PS) on financial holding companies. This document contains a number of changes to various parts of the PRA Rulebook, which do not create new prudential requirements but are intended to ensure that the Rulebook is applied at the correct level within the banking group. The PS also contains supervisory measures and the imposition of penalties and their amount in relation to financial holding companies.

Other publications of interest

Government

SUITABILITY ASSESSMENTS

(02/07/2021) EBA – Draft final report on joint EBA and ESMA Guidelines on the assessment of suitability / Draft final report on Guidelines on remuneration policies under CRD.

The European Banking Authority (EBA) has published its revised Guidelines on remuneration policies which takes into account the amendments introduced by the fifth Capital Requirements Directive (CRD V) in relation to gender-neutral remuneration policies. Furthermore, the EBA has published its revised Guidelines on internal governance and Guidelines on the assessment of the suitability of members of the management body and key function holders.

MIFID II

(19/07/2021) ESMA – Guidelines on certain aspects of the MIFID II remuneration requirements

The European Securities and Markets Authority (ESMA) has launched a consultation on draft ESMA guidelines on certain aspects of the MiFID II remuneration requirements. The purpose of these draft guidelines is to enhance clarity and foster convergence in the implementation of the new remuneration requirements, replacing the existing ESMA guidelines on the same topic, issued in 2013.

REMUNERATION

(21/07/2021) PRA – PS18/21 | CP9/21 - Remuneration: Correction to the definition of 'higher paid material risk taker'

The Prudential Regulation Authority (PRA) has published the Policy Statement (PS) 18/21 which provides feedback to the responses to the Consultation Paper (CP) on Remuneration and correction to the definition of higher paid material risk taker. This PS includes amendments to the remuneration part of the PRA Rulebook and it will take effect from Friday 23 July 2021.

PRUDENTIAL REGULATION

(02/08/2021) EBA – EBA consults on new Guidelines on the role of AML/CFT compliance officers

The EBA has launched a public consultation on new Guidelines which set expectations regarding the role and responsibilities of financial sector operators' management body or, where no management body exists, the role and responsibilities of the senior manager in relation to money laundering and countering the financing of terrorism (AML/CFT). Once adopted, these Guidelines will apply to all financial sector operators that are within the scope of the AML Directive. Comments to this consultation can be submitted until 2 November 2021.

MIFIR

(24/08/2021) ESMA – Consultation Paper on Draft regulatory technical standards on the management body of Data Reporting Services Providers (DRSPs)

The European Securities and Markets Authority (ESMA) has published a Consultation Paper on draft Regulatory Technical Standards (RTS) under the Markets in Financial Instruments Regulation (MiFIR) regarding suitability assessments of Data Reporting Services Providers (DRSP) management body members. The ESMA proposes to introduce requirements covering among others the following areas: i) good repute, honesty and integrity; ii) commitment; iii) knowledge, skills and experience; and iv) independence. Comments to this consultation can be sent before 24 September 2021.The European Securities and Markets Authority (ESMA) has published the MiFID II/MiFIR Annual Review Report in which the ESMA analyses whether it is appropriate to move to the following stage of the phase-in for the transparency requirements for both the average daily number of trades threshold used for the quarterly liquidity assessment of bonds, and for the pre-trade size specific to the instrument threshold for bonds.

Other publications of interest

Reporting and disclosure

MIFIR

(09/07/2021) ESMA - ESMA consults on the review of transparency requirement under MIFIR

The ESMA has launched a Consultation Paper on the review of the regulatory technical standards transparency requirements under the Markets in Financial Instruments Regulation (MiFIR). This Consultation Paper reflects the findings and recommendations of various MiFID review reports published by ESMA in 2019 and 2020.

DISCLOSURE

(26/07/2021) IASB – IASB proposes reduced disclosure requirements for subsidiaries

The IASB has proposed a new IFRS Standard that would permit eligible subsidiaries to apply IFRS Standards with a reduced set of disclosure requirements. The proposed Standard would be available to subsidiaries without public accountability, companies that are not financial institutions or listed on a stock exchange.

EARNINGS AND REGULATORY REPORTING

(22/09/2021) OCC – The Earnings booklet / The Regulatory reporting booklet

The Office of the Comptroller of the Currency (OCC), has released new version of the Earnings Booklet and the Regulatory Reporting Booklet. The first one includes procedures for reviewing earnings in a specific line of business or for the bank as a whole and discusses sound risk management principles to ensure that earnings are sufficient to maintain an adequate level of reserves and capital. The second booklet, provides guidance to examiners on how to determine the materiality of a misstatement in a regulatory report and when a refiling might be required

Other publications of interest

Covid-19

COVID-19

(06/07/2021) BCBS - Early lessons from the Covid-19 pandemic on the Basel reforms

The Basel Committee on Banking Supervision (BCBS) has published an interim evaluation report assessing the impact of the implemented Basel reforms in light of the COVID-19 pandemic. The report provides a preliminary assessment of whether the reforms implemented to date have functioned as intended. In particular, the Committee's main conclusions are in relation to: i) the overall resilience of the banking system during the pandemic; ii) liquidity buffers; or iii) the impact of the leverage ratio on financial intermediation.

FINANCIAL RISKS

(08/07/2021) EIOPA - EIOPA reports on key financial stability risks in the European insurance and pension sectors

The EIOPA has published its Financial Stability Report that addresses key financial stability risks in the European insurance and pension sector. The EIOPA emphasizes that with the COVID-19 pandemic, increased unemployment and corporate credit downgrades have a negative impact on both insurance and pension sectors.

ORSA

(19/07/2021) EIOPA - Supervisory statement on the ORSA in the context of COVID-19

The European Insurance and Occupational Pensions Authority (EIOPA) has published the supervisory statement on Own Risk and Solvency Assessment (ORSA) in the context of COVID-19 pandemic. With the aim to foster supervisory convergence, EIOPA in this supervisory statement focuses on the supervision of the internal processes of undertakings that are necessary for having a good quality ORSA in place.

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Other publications of interest

Climate change

CLIMATE CHANGE IMPACT ON FINANCE

(01/07/2021) ECB - Joint ECB/ESRB report shows uneven impacts of climate change for the EU financial sector

The European Central Bank (ECB) and the European Systemic Risk Board (ESRB) have published a joint report that takes a closer look at how a broadened set of climate change drivers affect global firms and financial firms in the EU. It maps out prospective financial stability risks and contributes by further developing the analytical basis for more targeted and effective policy action.

SUSTAINABLE FINANCE

(06/07/2021) EC – Delegated Act supplementing Article 8 of the Taxonomy Regulation / European Green Bond Standard / Sustainable Finance Strategy

The European Insurance and Occupational Pensions Authority (EIOPA) has published the Report on non-life underwriting and pricing in light of climate change which investigates the opportunity for (re)insurers, as risk managers and underwriters, to contribute to climate adaptation and mitigation. The EIOPA has also published a Methodological paper which proposes steps which support the need to formalise an approach to re-assess and, where needed, recalibrate parameters for the natural catastrophe risk module of the Solvency II standard formula.

(08/07/2021) EIOPA – Report on non-life underwriting and pricing of climate change / Methodological paper for integrating climate change in underwriting risk capital charge of the Solvency II standard formula

The European Insurance and Occupational Pensions Authority (EIOPA) has published the Report on non-life underwriting and pricing in light of climate change which investigates the opportunity for (re)insurers, as risk managers and underwriters, to contribute to climate adaptation and mitigation. The EIOPA has also published a Methodological paper which proposes steps which support the need to formalise an approach to re-assess and, where needed, recalibrate parameters for the natural catastrophe risk module of the Solvency II standard formula.

CLIMATE TAXONOMY

(12/07/2021) Platform on Sustainable Finance – Draft report on a social taxonomy/ public consultation report on Taxonomy extension options linked to environmental objectives

The Sustainable Finance Platform has published two drafts of official advice to the European Commission on the extension of the Climate Taxonomy Regulation to social objectives and the extension options linked to environmental objectives. This advice will feed in to Commission's report on potential extension of taxonomy framework to be adopted by the end of 2021.

EFFECTS OF CLIMATE CHANGE IN THE EUROZONE

(22/09/2021) ECB - Occasional Paper Series: Climate change and monetary policy in the euro área

The European Central Bank (ECB) has published a paper that analyzes the implications of climate change in the Eurozone's monetary policy. On the one hand, it refers about macroeconomic and financial risks, which arise from climate change and policies aimed to climate mitigation and adaptation. In particular, studies the impact of climate change on inflation, economic activity and financial institutions and markets.

Other publications of interest

Work Programmes

FINANCIAL RISKS

(05/08/2021) BIS – Committee on Payments and Market Infrastructures publishes work programme for 2021-22

The Committee on Payments and Market Infrastructures (CPMI) has published its work programme for 2021- 2022 for the first time. The work programme focuses on shaping the future of payments and addressing risks in financial market infrastructures. The priorities include: i) enhancing cross-border payments; ii) addressing policy issues arising from innovations in payments; and iii) evaluating and addressing risks in financial market infrastructures that emerged or were accentuated during the COVID-19 pandemic.

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Other publications of interest

Others

MONETARY POLICY

(08/07/2021) ECB - ECB's Governing Council approves its new monetary policy strategy/ ECB presents action plan to include climate change considerations in its monetary policy strategy

The European Central Bank (ECB) Governing Council has approved its new monetary policy strategy. The new strategy adopts symmetric 2% inflation target over medium term and confirms that Harmonised Index of Consumer Prices (HICP) remains appropriate price measure but recommends the inclusion of home ownership prices over time. Furthermore, the Governing Council has published a climate action plan which includes climate change considerations in monetary policy operations in the areas of disclosure, risk assessment, collateral framework and corporate sector asset purchases

PENSIONS

(13/07/2021) EIOPA –Consultation Paper on technical advice on pension tracking services / Consultation Paper on technical advice on pension dashboards

The EIOPA has launched two consultations on the development of pension tracking services and pension dashboards. The two consultations are a response to the European Commission's request for technical advice and are part of the implementation of the Capital Markets Union action plan. The proposals will help citizens in their retirement planning and supporting the Member States in identifying emerging gaps in their pension systems.

LIBOR

(14/07/2021) FCA – CP 21/22 on LIBOR transition and the derivatives trading obligation (DTO)

The FCA has published the Consultation Paper (CP) 21/22 on LIBOR transition and the derivatives trading obligation. This CP focuses on the classes of swaps that are affected or likely to be affected by the LIBOR transition to decide where the DTO should apply.

PRIIPS

(20/07/2021) EBA –PRIIPs - Proposed scope rules and amendments to Regulatory Technical Standards

The PRA has published the Consultation Paper (CP) 21/23 in relation to the Packaged Retail and Insurance based Investment Products (PRIIPs) disclosure regime. The main aim of the CP is to address the lack of clarity on the PRIIPs scope, misleading performance scenarios and risk indicators.

Other publications of interest

Others

MISTERY SHOPPING

(21/07/2021) EBA – Methodological guide to mystery shopping

The European Banking Authority (EBA) has published a methodological guide to mystery shopping (MS). The guide sets out in seven steps how MS activities can be conceived and carried out. In particular, how NCAs can use the guide as a complement to other existing supervisory tools, and how to adapt such activities to the particular circumstances, goals and MS powers conferred on an NCA under national law and/or EU law.

PROPORTIONALITY ASSESSMENT

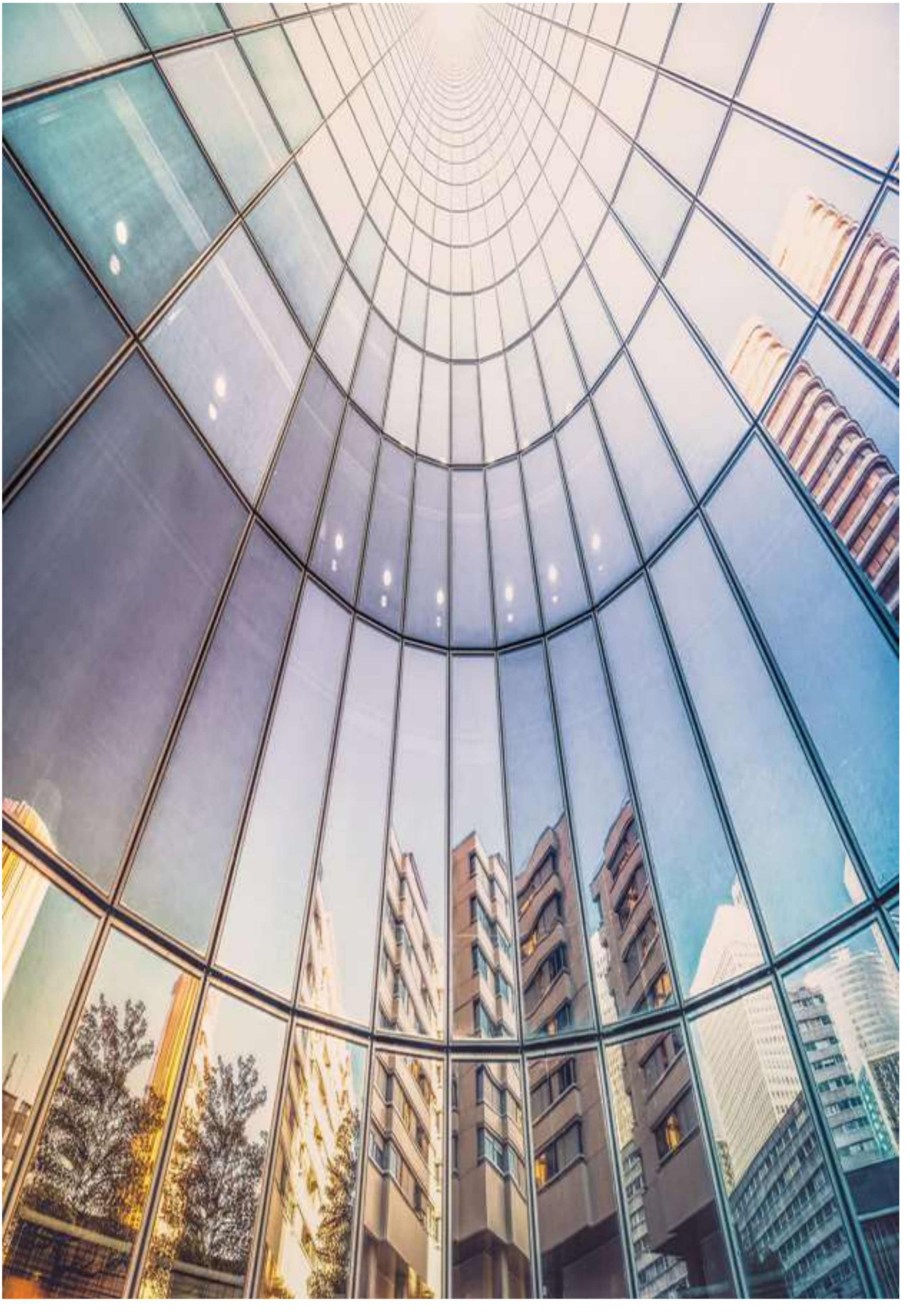
(22/07/2021) EBA – EBA launches discussion paper on proportionality assessment methodology

The EBA has launched a Discussion Paper aiming at gathering some preliminary input on how to standardise the proportionality assessment methodology for credit institutions and investment firms. The proportionality assessment methodology entails two separate steps: the definition of four different classifications for credit institutions and investment firms and the definition of the metrics applicable to the different categorisations. Comments to this paper can be sent before 22 October 2021.

SHADOW BANKS

(26/07/2021) EBA – EBA consults on technical standards to identify shadow banking entities

The EBA has launched a public consultation on draft regulatory technical standards (RTS) setting out criteria for the identification of shadow banking entities for the purposes of reporting large exposures. Comments to this consultation can be sent until 26 October 2021.



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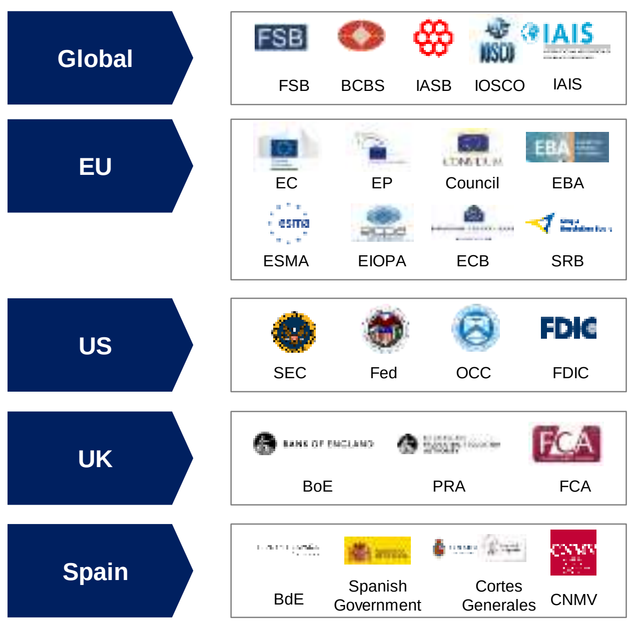
Regulators



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