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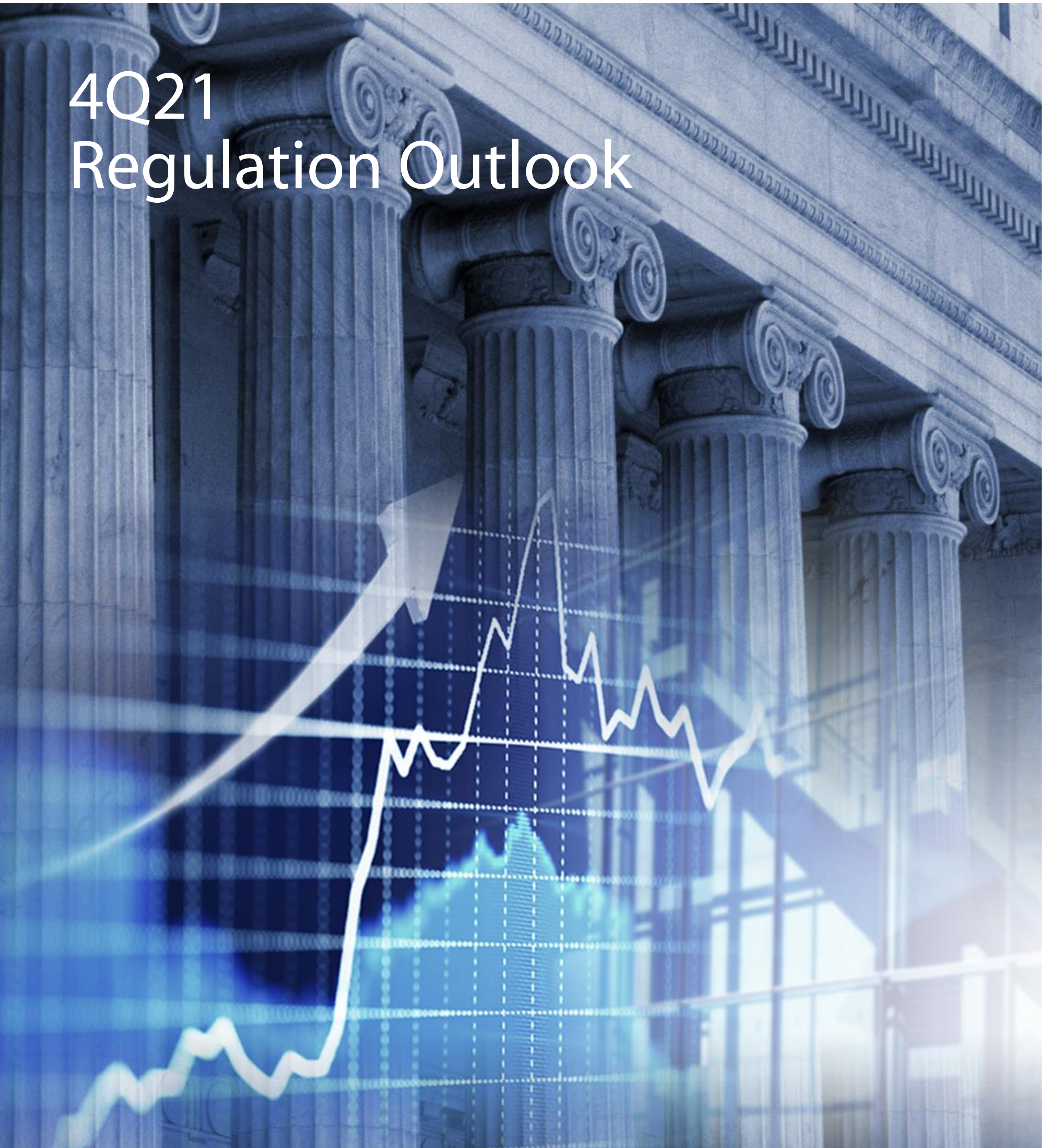
4Q21 Regulation Outlook



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Executive Summary

In the fourth quarter of 2021, it stands out the publication of the EC of the banking package, which is the last phase of the final implementation of Basel III in the EU and consists of several proposals that introduce changes in CRR and CRD. Also noteworthy is the publication by the ECB of the climate risk stress test methodology and the publication by the EBA of the monitoring report on the application of IFRS 9 by EU institutions

Global publications

- The IASB have published the **prototypes for climate disclosure requirements and general sustainability disclosure requirements** developed by the Technical Readiness Working Group.
- The BCBS has published a **Consultation Paper on the Principles for the Effective Management and Supervision of Climate-related Financial Risks**. The approach is based on the review of the current Basel Framework, in particular on the Basel Core Principles and Supervisory Review Process and draws from existing supervisory initiatives undertaken by individual prudential authorities and other international bodies.

European publications

- The EC has adopted a set of measures to ensure that investors have better access to company and trading data, as well as encourage long-term investment and make it easier and safer for investment funds to be sold cross-border. These legislative proposals are the **Regulation on the European Single Access Point, the Review of the European Long-Term Investment Funds Regulation, the Review of the Alternative Investment Fund Managers Directive, the Review of the Markets in Financial Instruments Regulation.**
- The EBA has published the **Monitoring Report on the IFRS 9 implementation by EU institutions** which summarises the findings arising from the EBA's investigations since the publication of its last report in December 2018. The conclusions include the effect of the COVID-19 scenario on the calculation of provisions, requiring some rapid adjustments to the models, as well as greater flexibility in the criteria used by institutions.
- The EC has published the **Banking Package 2021**, which is the last phase of the final implementation of Basel III in the EU. These new rules will ensure that EU banks become more resilient to potential future economic shocks, while contributing to Europe's recovery from the COVID-19 pandemic and the transition to climate neutrality. This package is composed of three proposals that complete the reform of banking regulation, introducing changes to both the **Regulation** and the **Capital Requirements Directive.**
- The ECB has published the **Climate risk stress test methodology** which outlines the main characteristics of the 2022 climate risk stress test and provides banks with guidance on how to conduct the exercise.

Local publications

- The PRA has published the **Policy Statement 23/21** which provides feedback to responses to Consultation Paper 7/21 on the **identification of the nature, severity, and duration of an economic downturn for the purposes of Internal Ratings Based models**, which sets out the PRA's proposed approach on this area.
- The BoS has published the **Circular 6/2021 amending the accounting circulars of credit institutions and financial credit institutions**. The aim of this update is to preserve the convergence of Spanish accounting standards for financial institutions with the International Financial Reporting Financial Reporting Standards adopted by the EU, as well as to maintain alignment and avoid overlaps with other European standards and guidelines. Poner esta alerta en el informe de inglés

Regulatory projections

At the European level, the EC is expected to publish the second Delegated Act of the Taxonomy Regulation in 2022 and the European cyber resilience act. Furthermore, the EBA Guidelines on remuneration policies, internal governance and assessment of suitability and the BoS's expectations regarding the risks arising from climate change and environmental degradation will enter into force.

Featured regulatory projections

1. Next quarter

- **(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).
  - The EC is expected to publish a draft text of a Taxonomy Complementary Delegated Act covering certain gas and nuclear activities[1].
- **(UK) Q1 2022**:
  - The BoE expects to run a second round on the Climate Biennial Exploratory Scenario[2].

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.
  - The EC will take further steps in 2022 on the CMU, including a proposal on listing, an "open finance" framework, a corporate insolvency initiative and a financial literacy framework.
- **(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) Q2 2022:**
  - The ECBs Climate Stress test will be conducted from **March 2022 to July 2022**.
- **(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) Q2:**
  - The PRA is expected to publish the Consultation Paper on disclosure rules and labelling to support Government ambition in green finance.
- **(UK) May 2022**: The BoE expects to publish the CBES results.
- **(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.
  - The EC is expected to publish the European cyber resilience act
- **(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.

(1) Published on 2 February 2022.
(2) Published on 8 February 2022.

2. Next year (cont.)

- **(UK) Q4 2022:**
  - The PRA is expected to publish the Consultation Paper on prudential ESG disclosure
- **(Global) November 2022:**
  - The FSB will update the list of G-SIBs again in November 2022.
- **(Europe) December 2022**:
  - Banks must present either a preliminary analysis of the Separability Analysis Report (SAR) or the SAR and transfer playbook by December 31, 2022.

Application dates

1. Next quarter

- **(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.
  - Policy changes resulting from Policy Statement (PS) 23/21 providing information on responses to 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.
- **(Spain) Q1 2022:**
  - The update of the Economic and Monetary Union statistical data requirements will apply for the first time for the data of 31 January 2022 for the monthly frequency and 31 March 2022 for the quarterly frequency in accordance with the provisions of the BoS Circular on the supervision and solvency of credit institutions.
- **(Europe) March 2022:**
  - The revised Guidelines on risk-based supervision of credit and financial institutions' compliance with AML/CFT obligations will apply from **16 March 2022**.

2. Next year

- **(Europe) 2022:**
  - The EBA Guidelines on remuneration policies, internal governance and assessment of suitability.
- **(Spain) Q2 2022**:
  - The BoS's expectations regarding the risks arising from climate change and environmental degradation.
- **(Europe) June 2022**:
  - The EBA Guidelines on cooperation and information exchange between prudential supervisors, AML/CFT supervisors and financial intelligence units.
- **(Spain) June 2022:**
  - The new tables with the alternative solutions for the collective estimation of credit risk loss allowances and the discounts on the reference value of foreclosed assets or assets received in payment of debts as set out in the BoS Circular on the supervision and solvency of credit institutions.
- **(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 EBA ITS of Supervisory Reporting which reflects the amendments to the securitisations framework and minor changes to the reporting on own funds and own funds requirements.
  - The EBA Final draft comprehensive ITS on institutions' Pillar 3 disclosures on ESG risks.

3. 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)

3. More than a year (cont.)

- **(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.
  - 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 Final Report on GL on improving resolvability for institutions and resolution authorities
- **(Europe) 2025**:
  - General application of the provisions amending the legislative package (CRD IV/CRR III) 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.

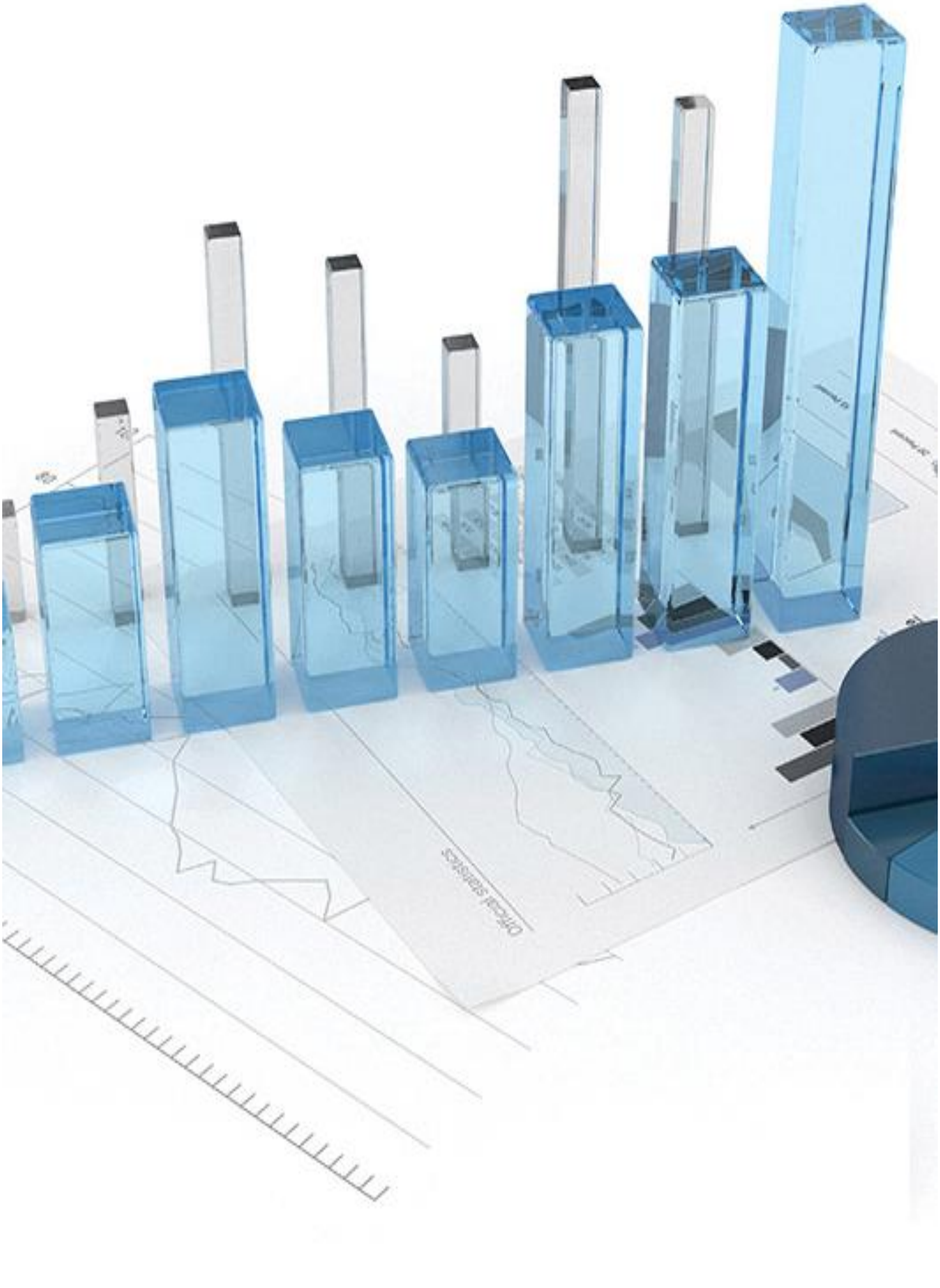

BANK

Publications of the quarter

Summary of outstanding publications of this quarter

Publications of the quarter

Summary of outstanding publications of this quarter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05/11/2021
International Sustainability Standards Board and publication of prototype disclosure requirements

1. Context

In answer to the growing and urgent demand to improve the global consistency and comparability of companies' sustainability disclosures to meet the needs of investors and other capital market participants, the IFRS Foundation began working towards the creation of an international sustainability standards board in October 2019.

In this context, the IFRS have approved the amendments to the Constitution required to establish the **International Sustainability Standards Board (ISSB)** within the Foundation's governance structure to develop a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors' information needs. Furthermore, the IFRS will consolidate the **Climate Disclosure Standards Board (CDSB)** and the **Value Reporting Foundation (VRF).** Finally, it has also published the **prototypes for climate disclosure requirements and general sustainability disclosure requirements** developed by the Technical Readiness Working Group (TRWG).

2. Principales aspectos

International Sustainability Standards Board and Consolidation with CDSB and VRF

- **Disclosure**. The ISSB will develop IFRS Sustainability Disclosure Standards, including disclosure requirements that address companies' impacts on sustainability matters relevant to assessing enterprise value and making investment decisions. The ISSB's standards will enable companies to provide comprehensive sustainability information for the global financial markets.
- **Informed by experts advice**. Technical advice on sustainability matters will be provided to the ISSB by a new Sustainability Consultative Committee, whose members will include the International Monetary Fund, the Organisation for Economic Co-operation and Development, the United Nations, the World Bank and additional expert members.
- **Global footprint**. The ISSB will have a global and multi-location presence. All regions, the Americas, Asia-Oceania and EMEA (Europe, the Middle-East and Africa) will be covered.
- **Consolidation**. The IFRS Foundation will complete consolidation of the CDSB and the VRF by June 2022.

Prototypes on climate and general disclosure requirements

- **Prototype climate-related disclosures**. These disclosure requirements require an entity to disclose information about its exposure to climate-related risks and opportunities in relation to the following aspects:
  - Governance. The governance processes, controls and procedures the entity uses to monitor and manage climate-related risks and opportunities.
  - Strategy. The climate-related risks and opportunities that could enhance, threaten or change the entity's business model, strategy and financial position and performance over the short, medium and long term.
  - Risk Management. How climate-related risks are identified, assessed, managed and mitigated by the entity.
  - Metrics and targets. The metrics and targets used to manage and monitor the entity's performance in relation to climate-related risks and opportunities over time.
- **Prototype general requirements**. To achieve the objective to require entities to provide material information about the entity's exposure to sustainability-related risks and opportunities that is useful to users, the Standard includes:
  - Requirement to disclose a complete, neutral and accurate depiction of an entity's significant sustainability risks and opportunities.
  - Definition of materiality, focused on the information that serves the needs of users and drives enterprise value.
  - Disclosure of information about significant sustainability-related risks and opportunities built on a consideration of an entity's governance, strategy and risk management and supported by metrics and targets.
  - Further requirements and guidance that support the provision of comparable and connected information.

3. Próximos pasos

- They FSB will commence shortly a search for the additional board positions, up to the full complement of 14 members. The ISSB's work is expected to commence as soon as the Chair and Vice-Chair(s) have been appointed.
- The prototypes for climate and general sustainability requirements disclosure will serve as technical and operational input for ISSB consideration.

FINANCIAL STABILITY BOARD

26/11/2021
2021 list of G-SIBs

1. Contexto

In November 2011 the FSB published an integrated set of policy measures to address the systemic and moral hazard risks associated with systemically important financial institutions (SIFIs). In that publication, the FSB identified an initial group of global systemically important banks (G-SIBs) which are updated annually. In addition, the BCBS published a revised version of its methodology, which is expected to be implemented by 2022.

In this context, the FSB has published the **2021 list of G-SIBs**, using end-2020 data and the assessment methodology designed by the BCBS. In parallel with these publications, the BCBS has released **additional information** regarding the end-2020 G-SIB assessment.

2. Principales aspectos

FSB - 2021 list of G-SIBs

- Compared with the list of G-SIBs published in 2020, **the number of banks identified as G-SIBs remains 30**
    - Three banks have moved to a higher bucket: JP Morgan Chase has moved from bucket 3 to bucket 4, BNP Paribas has moved from bucket 2 to bucket 3 and Goldman Sachs has moved from bucket 1 to bucket 2.
- **The FSB applies the following requirements** to G-SIBs:
    - Higher capital buffer requirements.
    - The Total-Loss Absorbing Capacity (TLAC) requirements set out in the Basel III framework.
    - Resolvability requirements, which include group-wide resolution planning and regular resolvability assessments.
    - Higher supervisory expectations for risk management functions, risk data aggregation capabilities, risk governance and internal controls.

BCBS - Additional information

- The **BCBS has also published** the following information regarding the **assessment methodology** used for the purpose of the list of G-SIBs:
    - A list of the banks included in the assessment sample, and the links to the disclosures of those banks.
    - The denominators of each of the 12 high-level indicators used to calculate the scores for sample banks.
    - The 12 high-level indicators for each bank in the sample used to calculate these denominators.
    - The cut-off score used to identify the G-SIBs in the updated list and the thresholds used to allocate G-SIBs to buckets for the purpose of calculating the specific higher loss-absorbency requirements.

3. Próximos pasos

- The FSB will update the list of G-SIBs again in **November 2022**.

28/10/2021
Outsourcing principles to ensure operational resilience

1. Contexto

Since the publication of IOSCO´s principles on outsourcing for market intermediaries in 2005 and for markets in 2009, new developments in markets and technology have focused regulatory attention on risks related to outsourcing and the need to ensure the operational resilience of regulated entities (trading venues, market intermediaries, market participants and credit rating agencies).

In this context, the IOSCO has published the **final report on principles on Outsourcing** which comprise a set of fundamental precepts and seven principles. These Principles are intended to be technology-neutral and provide regulated entities with sufficient flexibility to implement them according to the nature and size of their business model. On the other hand, the report also addresses the impact of COVID-19 on outsourcing and operational resilience.
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2. Principales aspectos

- **Principles**. A regulated entity should:
    - Conduct suitable due diligence processes in selecting an appropriate service provider and in monitoring its ongoing performance.
    - Enter into a legally binding written contract with each service provider, the nature and detail of which should be appropriate to the materiality or criticality of the outsourced task to the business of the regulated entity.
    - Take appropriate steps to ensure both the regulated entity and any service provider establish procedures and controls to protect the regulated entity's proprietary.
    - Take appropriate steps to ensure that service providers protect confidential information and data related to the regulated entity and its clients from intentional or inadvertent unauthorised disclosure to third parties.
    - Be aware of the risks posed and should manage them effectively.
    - Take appropriate steps to ensure that its regulator, its auditors, and itself are able to obtain promptly, upon request, information concerning outsourced tasks that is relevant to contractual compliance and/or regulatory oversight.
    - Include in its contract with service providers and ensure that it maintains appropriate exit strategies. written provisions relating to the termination of outsourced tasks
- **Impacto de la pandemia de COVID-19 en la externalización y la resiliencia operacional**. Durante la pandemia de COVID-19, la actividad de externalización demostró en general ser resiliente. La externalización puede haber mejorado la resiliencia operacional de algunas entidades financieras, especialmente en los casos en que estas se situaban en zonas con una infraestructura informática menos desarrollada.

30/11/2021
Final report on ESG Ratings and Data producers

1. Context

The use of ESG ratings and data products has grown considerably in response to investors' mounting interest in investing in companies that take account of sustainability in the way they are run. In this context, on July 2021 the IOSCO published a consultation report proposing recommendations to mitigate the risks associated with ESG ratings and data products and to address some of the existing challenges faced by providers, users and target companies.

In this context, IOSCO has published the **final report on ESG Ratings and Data producers**, which analyzes the market, providers and users of these ratings, and provides a series of recommendations for securities market regulators, providers and users of these products and services.

2. Main points

- **Market overview of ESG ratings and products**. The Overview of the ESG ratings and data products market describes the types of companies that act as these product providers. Currently, the global market is concentrated around a small number of providers with a global presence, alongside a larger number of providers with a more regional focus or offering more specialized services.
- **ESG ratings and data product providers**. Analysis of the practices and experiences of these providers. In particular, it is considered how providers obtain their ESG data and the methods used in the industry (e.g. some providers have based their business practices around the application of AI and ML techniques to improve their data collecting). There are identified some of the key challenges in this area and provides an overview of the business models used in the industry.
- **Private and public users of ESG ratings and data products**. There are summarized some of the opinions provided mainly by large private and public users. These views include, how these users consume this information, whether and how they conduct due diligence on this information, and whether they identify any issues related to governance and management of conflicts of interest.
- **Companies and providers of ESG ratings and data products**. Exploration of how ratings and ESG data product providers engage with companies. There are three phases during which companies can interact with ESG ratings and data products providers: i) data collection; ii) data assessment; and iii) pre-publication of the final ESG ratings or data products.
- **Recommendations**. These recommendations are categorized into:
    - Recommendations on possible regulatory and supervisory approaches. Regulators could consider focusing more attention on the use and providers of ESG ratings and data products that may be subject to their jurisdiction.
    - Recommendations on the internal processes of providers. ESG ratings and data products providers could consider adopting and implementing written policies and procedures designed to help ensure their decisions are independent, free from political or economic interference.
    - Recommendations concerning the use of ESG ratings and data products. Market participants could consider conducting due diligence or gathering and reviewing information on the ESG ratings and data products that they use in their internal processes.
    - Recommendations on how the providers interact with the entities that are subject to the ESG ratings and data products. ESG ratings and data products providers could consider improving information gathering processes with entities covered by their products.

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19/11/2021
Principles for the effective management and supervision of climate-related risks

BANK FOR INTERNATIONAL SETTLEMENTS

1. Context

On April 2021, the BCBS conducted analytical work to better understand the risk features of climate change and its potential implications for individual banks and the broader banking system. As a result, the Committee published two: The report on Climate-related risk drivers and their transmission channels and the report on Climate-related financial risks – measurement methodologies. The Committee is now examining the extent to which climate-related financial risks can be addressed within the Basel Framework, identifying potential gaps in the current framework and how to address them.

In this context, the BCBS has published a **Consultation Paper on the Principles for the Effective Management and Supervision of Climate-related Financial Risks**. The Committee seeks to promote a principles-based approach to improving risk management and supervisory practices of climate-related financial risks. The approach is based on the review of the current Basel Framework, in particular on the Basel Core Principles (BCP) and Supervisory Review Process (SRP), and draws from existing supervisory initiatives undertaken by individual prudential authorities and other international bodies.

2. Main Points

Principles for the management of climate-related financial risks

- **Corporate governance. (Principles 1-3).**
  - Banks should develop a process for assessing the potential financial and environmental impact of climate-related risk drivers and their consideration into a bank's strategy.
  - The board should assign climate-related responsibilities to members and committees.
  - Banks should also adopt policies and procedures to ensure effective management of climate-related financial risks.
- **Internal control framework (Principle 4).**
  - Banks should incorporate climate-related financial risks into their internal control frameworks across the three lines of defense. The aim is to be able to ensure sound, comprehensive and effective identification, measurement and mitigation of material climate-related financial risks.
- **Capital and liquidity adequacy (Principle 5).**
  - Banks should identify and quantify climate-related financial risks and incorporate those assessed as relevant into their internal capital and liquidity adequacy assessment processes.
- **Risk management process (Principle 6).**
  - Banks should identify, monitor and manage all climate-related financial risks that could materially impair their financial condition, including their capital resources and liquidity positions.
  - Banks should ensure that their risk appetite and risk management frameworks consider all material climate-related financial risks to which they are exposed and establish a reliable approach to identifying, measuring, monitoring and managing those risks.
- **Management monitoring and reporting (Principle 7).**
  - Risk data aggregation capabilities and internal risk reporting practices should account for climate-related financial risks.
  - Banks should seek to ensure that their internal reporting systems are capable of monitoring material climate-related financial risks and producing timely information to ensure effective board and senior management decision-making.
- **Comprehensive management of credit risk (Principle 8).**
  - Banks should understand the impact of climate-related risk drivers on their credit risk profiles and ensure credit risk management systems and processes consider material climate-related financial risks.
- **Comprehensive management of market, liquidity, operational and other risks (Principle 9-11).**
  - Banks should understand the impact of climate-related risk drivers on their market risk positions, on their liquidity risk profiles and on their operational risk to ensure that market risk management systems and processes consider material climate-related financial risks.
- **Scenario analysis (Principle 12).**
  - Banks should make use of scenario analysis, including stress testing, to assess the resilience of their business models and strategies to a range of plausible climate-related pathways and determine the impact of climate-related risk drivers on their overall risk profile.

2. Main Points (Cont.)

Principles for the supervision of climate-related financial risks

- **Prudential regulatory and supervisory requirements for banks (Principle 13-15)**.
  - Supervisors should determine that banks' incorporation of material climate-related financial risks into their business strategies, corporate governance and internal control frameworks is sound and comprehensive.
  - Supervisors should determine that banks can adequately identify, monitor and manage all material climate-related financial risks as part of their assessments of banks' risk appetite and risk management frameworks.
  - Supervisors should determine that banks comprehensively identify and assess the impact of climate-related risk drivers on their risk profile and ensure that material climate-related financial risks are adequately considered in their management of credit, market, liquidity, operational, and other types of risk.
- **Responsibilities, powers and functions of supervisors (Principle 15-18)**.
  - Supervisors should utilize an appropriate range of techniques and tools and adopt adequate follow-up measures in case of material misalignment with supervisory expectations.
  - Supervisors should ensure that they have adequate resources and capacity to effectively assess supervised banks' management of climate-related financial risks.
  - Supervisors should consider using climate-related risk scenario analysis, including stress testing, to identify relevant risk factors and data gaps, size portfolio exposures, and inform the adequacy of risk management approaches.

3. Next Steps

- The comments should be submitted by **16 February 2022**.

Publications of the quarter
European publications

21/10/2021
2022 Annual Work Programme

EUROPEAN COMMISSION

1. Context

The EC has adopted the **2021 Work Programme** which is designed to make Europe greener, fairer, more digital and more resilient. The programme will be implemented on the basis of six policy priorities around which 42 legislative initiatives are developed.

2. Main points

- **European Green Deal**. The EC will continue to work on making Europe climate neutral by 2050. To this end, the EC will propose a regulatory framework for certification of carbon removals, follow up on the zero pollution action plan to improve water and air quality and will advance the circular economy. Furthermore, The EC will also mobilise resources, next to the already proposed Social Climate Fund, doubling the external funding for biodiversity.
- **Europe fit for the digital age**. The EC will follow up on its path to the digital decade to deliver on the EU's digital transformation by 2030. The EC will propose a European Cyber Resilience Act to establish common cybersecurity standards and begin building an EU space-based global secure communications system to provide additional EU-wide broadband connectivity and secure independent communications to Member States.
- **Economy that works for people**. The EC will follow up on the European Pillar of Social Rights Action Plan as a guide towards quality jobs, fair working conditions and a better work-life balance. Furthermore, it will deliver proposals on instant payments to foster their full uptake as well as facilitating access to capital for businesses in the EU.
- **Stronger Europe in the world**. The EC will prepare a defense package which will include a roadmap on security and defense technologies for boosting research, technology development and innovation and reducing the EU's strategic dependencies in critical technologies. The EC will work towards global energy transition and healthier oceans, and a new strategy on international energy engagement and an action plan on international ocean governance will be tabled.
- **Promoting our European way of life**. The EC will continue to deliver on building a Security Union and will report regularly on progress in the area of security. In particular, the priorities will focus on a future-proof security environment capable of tackling evolving threats, protecting Europeans from terrorism, and a strong European security ecosystem. The EC will also present an EU strategy for universities and propose ways for a deeper and more sustainable transnational cooperation in higher education.
- **A new push for European democracy**. The EC will also take further steps to safeguard media freedom and pluralism, by tabling a European Media Freedom Act, and will continue to guard the rule of law. Furthermore, it will continue its efforts on the design of the new interinstitutional EU Ethics Body.

29/10/2021
Banking Package 2021

EUROPEAN COMMISSION

1. Context

Basel III is the agreement reached by the EU and its G-20 partners in the Basel Committee on Banking Supervision to increase the resilience of banks to potential economic shocks in response to the financial crisis. . The initial phase starts in December 2010 with the publication of the original text (revised in 2011), in January 2013 the revised Liquidity Coverage Ratio (LCR) text is published, followed in October 2014 by the Net Stable Funding Ratio (NSFR) and in January 2016 the text on Minimum Capital Requirements for Market Risk (revised in January 2019). In 2017, the latest reforms were agreed upon and has had several phases in its implementation, with the vast majority of these rules having been adopted in the EU.

In this context, the EC has published the **Banking Package 2021**, which is the last phase of the final implementation of Basel III in the EU. These new rules will ensure that EU banks become more resilient to potential future economic shocks, while contributing to Europe's recovery from the COVID-19 pandemic and the transition to climate neutrality. This package is composed of three proposals that complete the reform of banking regulation, and introduce changes to the **Capital Requirements Regulation (CRR), the Capital Requirements Directive (CRD IV)**. They also present a separate legislative proposal to amend the CRD in the area of resolution, also known as the **"daisy chain proposal".**

2. Main points

Main amendments to CRR

- **Own Funds**. The proposal introduce:
  - New definitions of indirect holding and synthetic holding to also capture holdings of relevant liabilities.
  - The correction of asymmetries in the calculation of certain deductions (e.g. for insufficient coverage of non-performing exposures) from CET1 in the calculation of relevant CET1 items.
- **Output floor (OF).** The proposal introduces the output floor to the internal models set at 72.5% of the own funds requirements by standardised approaches.
- **Revision of the standardised approach for credit risk (SA-CR)**, in line with the revised Basel III standards. This revision increases the risk sensitivity of this approach in relation to several key aspects:
  - Changes to how institutions are to determine the exposure value of off-balance sheet items and commitments on off-balance sheet items.
  - Amendments to the current treatment of exposures to institutions, introducing the SCRA alongside the existing External Credit Risk Assessment Approach (ECRA).
  - Amendments to the current treatment of exposures to corporates to lower the risk weight applicable to exposures to corporates for which a credit quality step 3 credit assessment by a nominated ECAI is available.
  - Amendments to the current treatment of specialised lending exposures that introduce, a specialised exposures class as well as two general approaches to determine applicable risk weights for specialised exposures.
  - Amendments to the current treatment of exposures secured by real estate in line with the revised Basel III standards, to increase further the granularity with regard to the inherent risk posed by different types of real estate transactions and loans.
  - Other changes to: i) defaulted exposures, ii) subordinated debt exposures, and iii) equity exposures.
- **Revision of the internal ratings-based approaches for credit risk**. This proposal introduce amendments to limit the exposures classes for which internal models can be used to calculate own funds requirements for credit risk, implementing the Basel III standards. Specifically, the use of the advanced IRB (A-IRB) approach, is only allowed for those exposure classes for which robust modelling is possible whereas other exposure classes are “migrated” to less sophisticated approaches.
- **Market risk framework**. In order to introduce binding own funds requirements for market risk in line with the revised fundamental review of the trading book (FRTB) standards, a number of amendments are made, related to: i) elements of own founds, ii) general requirements and general provisions, iv) the alternative standardised approach and, v) the alternative internal model approach.
- **Operational risk**. The proposal introduces: i) new standardised approach to replace all existing approaches for operational risk; ii) changes to the calculation of own funds requirements; iii) new rules on data collection and governance.
- **Leverage ratio**. The proposal introduces changes to: i) the calculation of the exposure value of derivatives and the exposure value of off-balance-sheet items and, ii) the provisions related to regular-way purchases and sales awaiting settlement.
- **Environmental, social and governance (ESG) risks**. The amendments introduce new harmonised definitions of the different types of risks, aligned with those proposed by EBA.

Main amendments to CRD IV

- **Supervisory powers**. The proposal expands the list of supervisory powers available in the CRD to competent authorities.
- **ESG Risks**. Amends are made to require that short, medium and long term horizon of risks are included in credit institutions' strategies and processes. Another point is to enable the EBA together with the other ESAs to develop consistent standards for methodologies to stress test these risks.
- **Pillar 2 requirements**. Supervisors have the discretion to decide, on a case by case basis, to impose Pillar 2 capital requirements with a higher share of Tier 1 capital or CET 1 capital.
- **Introduction of the output floor (OF)**. Setting out the rules on the Pilar 2 requirements (P2R) and the systemic risk buffer (SyRB) requirement, respectively - by introducing safeguards aimed at preventing unjustified increases in the P2R and the SyRB requirement. These cannot be used to cover risks that are already fully covered by the OF.
- **Supervisory benchmarking of approaches for calculating own funds requirements**. two types of approaches; i) modelling approaches used to calculate expected credit risk losses both under International Financial Reporting Standard (IFRS 9) and under national accounting standards; ii) the alternative standardised approach for market risk.

Additional amendment to the Capital Requirement Regulation (CRR), which introduces the "Daisy chain proposal"

- The proposal incorporates directly into the CRR a **dedicated prudential treatment** related to the indirect subscription of instruments eligible for internal Minimum Requirement for own funds and Eligible Liabilities (MREL) **(daisy chain approach).**
- The proposal clarifies the CRR provisions on **the comparison between the sum of the actual Total Loss-absorbing Capacity (TLAC) requirements** of all the resolution groups within a Globally Systemic Important Institutions (G-SII) group with an Multiple Point of Entry (MPE) resolution strategy, with the **theoretical Single Point of Entry (SPE) requirement** of that G-SII group.
- It is amended the **formula for the calculation of the TLAC/MREL surplus** of a subsidiary in the context of the general deduction regime applicable to G-SIIs with an MPE resolution strategy to ensure that that formula takes into account both the risk-based and the non-risk-based TLAC/MREL requirements of the subsidiary, in line with the TLAC standard.
- The proposal clarifies some CRR provisions applicable to G-SIIs with an MPE resolution strategy to **allow for the consideration of subsidiaries established outside of the Union**.
- The proposal introduces some targeted clarifications in the context of the **requirement for own funds and eligible liabilities for institutions that are material subsidiaries of non-EU G-SIIs** ('internal TLAC') to ensure that debt instruments issued by those institutions could meet all eligibility criteria for eligible liabilities instruments.

3. Next Steps

- The legislative package will now be discussed by the European Parliament and Council.
- The entry into force of the changes will be gradual. The first amendments are expected to enter into force in **2023**.

02/12/2021
Legislative proposals on the Capital Markets Union

EUROPEAN COMMISSION

1. Context

The Capital Markets Union (CMU) aims to create a genuine single market for capital across the EU, therefore, the CMU aims to achieve the flow of savings and investment in all Member States, benefiting citizens, investors and businesses. Above all, this requires even more urgency due to the crisis caused by the COVID-19 and the necessary funding required to support recovery, sustainable growth and the ecological transition. The Commission's Action Plan for the CMU 2020 is a step forward in the face of obstacles to the free movement of capital, which aims to make money flow throughout the EU so that it can benefit consumers, investors and businesses, regardless of their location.

In this context, the EC has adopted a set of measures to improve the ability of companies to raise capital across the EU and ensure that European citizens get the best deals on their savings and investments, thereby achieving a recovery from the COVID-19 crisis by boosting the green and digital transition.These legislative proposals are the **Regulation on the European Single Access Point (ESAP), the Review of the European Long-Term Investment Funds (ELTIFs) Regulation, the Review of the Alternative Investment Fund Managers Directive (AIFMD), Review of the Markets in Financial Instruments Regulation (MiFIR).**

2. Main points

<u>Regulation on the European Single Access Point (ESAP)</u>

- **The ESAP**. It is proposed to establish by 2014 the ESAP, which will provide a single point of access to public financial and sustainability-related information on EU companies and investment products.
- **Voluntary submission of information for accessibility on ESAP**. Any natural or legal person may submit to a collection body of public information, the information of relevance to financial services provided in the EU or to capital markets of the EU, using a data extractable format for drawing up that information and ensure that no personal data are included.
- **List of collection bodies**. ESMA shall publish a list of the collection bodies with information about the URL of each collection body.
- **Tasks of the collection bodies**. The collection bodies shall, among others: i) collect and store the information submitted by the entities; ii) perform automated validations on the information submitted to verify that the information complies the requirements set out in the Regulation; iii) ensure that the use and re-use of the information provided to ESAP is either not subject to any conditions.
- **Functionalities of ESAP**. The ESAP must provide several functionalities. Some of them are: i) a web portal with a user-friendly interface; ii) a search function; iii) a machine translation service.
- **Access to information available on ESAP**. ESMA shall ensure that anyone has direct and immediate access free of charge to the information available on ESAP

<u>Review of the European Long-Term Investment Funds (ELTIFs) Regulation</u>

- **The regulatory framework for ELTIFs is amended**:
    - <u>The objective of these amendments are to</u>: i) ensure that ELTIFs may make minority co-investments in investment opportunities; ii) facilitate the possibility of ELTIFs pursuing fund-of-funds investment strategies and investing in EU AIFs; iii) lower the minimum value of individual real assets; iv) specify the scope of eligible securitisations.
    - <u>The threshold for eligible investment assets</u> of ELTIFs is lowered to 60% to promote the attractiveness of ELTIFs to asset managers, improving the liquidity profile of the portfolios.
    - With respect to the <u>provisions relating to the investment policy</u> of ELTIFs, establishing that they shall not invest more than 20% of their capital in instruments issued by any single qualifying portfolio undertaking, single real asset, or in shares or participations of a single ELTIF.
    - <u>The aggregate risk exposure to a counterparty</u> of the ELTIF stemming from OTC derivative transactions should not exceed 10% of the value of the capital of the ELTIF.
    - Introduction of the optional <u>liquidity window mechanism</u> to provide liquidity to ELTIF investors.

Review of the Alternative Investment Fund Managers Directive (AIFMD)

- **The amendments to this Directive include the following:**
    - A clarification is introduced for the human and technical resources that Alternative Investment Funds Managers (AIMFs) should have, when applying for an AIMF authorization. When applying, the technical and human resources should be described in detail.
    - Competent authorities should send notifications to the ESMA on delegation arrangements where more risk or portfolio management is delegated to third country entities than is retained. The ESMA is empowered to develop draft RTS prescribing content, forms and procedures for the transmission of delegation notifications.
    - AIFMs managing AIFs, which grant loans, should implement effective policies, procedures and processes for the granting of loans, by assessing credit risk, and administering and monitoring their credit portfolios.
    - Single borrower lending is restricted when the borrower is a financial institution. In order to avert potential conflicts of interest, AIFs are forbidden to lend to its AIMF or its staff, its depositary or its delegate. To avoid moral hazard situations, AIFs are required to retain an economic interest of at least 5% of the notional value of the loans they have granted and sold off.
    - AIFMs managing open-ended AIFs are enabled to access the necessary tools for liquidity risk management in exceptional circumstances, in order to effectively address micro-prudential and macro-prudential risks.
    - Competent authorities are empowered to require a AIMF, EU resident or not, to deactivate or activate a relevant Liquidity Management Tool (LMT).

Review of the Markets in Financial Instruments Regulation (MiFIR)

- The amendments to this Regulation include the following:
    - Introduces the obligation for trading venues to contribute harmonised market data directly and exclusively to the entities appointed by ESMA as the consolidated tape provider (CTP) for each asset class (mandatory contributions). It also aligns the trade reporting formats and reporting obligations for SIs.
    - Introduces a provision on the organisational requirements and quality of service standards that apply to all CTPs selected and appointed by ESMA, including: i) a collection of consolidated core market data; ii) collection of licensing fees from subscribers; and ii) a revenue participation scheme.
    - Adjustments to the derivatives trading obligations, to align them under MiFIR with the clearing obligation for derivatives under 'EMIR Refit', to ensure legal certainty.
    - Prohibits SIs from offering payment for (retail) order flow (PFOF). Retail orders will be sent to a pre-trade transparent market (regulated market or MTF) for execution.

3. Next Steps

- The EC will take further steps in 2022 on the CMU, including a **proposal on listing, an "open finance" framework, a corporate insolvency initiative and a financial literacy framework.**

01/10/2021
2022 Annual Work Programme

1. Context

The ESMA has published the 2022 Work Programme setting out its priority work areas for the next 12 months to deliver on its mission to enhance investor protection and promote stable and orderly financial markets. In 2022, the ESMA will continue to contribute to the EU priorities in relation to the development of a Capital Markets Union (CMU), Innovation and Digitalisation, and Sustainable Finance.

2. Main points

- **Workstreams**. ESMA will focus on enhancing investor protection and promoting stable and orderly financial markets through the following workstreams:
  - Cross-Cutting Themes. The ESMA will focus on:
    - **CMU**. Contribute to developments in the regulatory and supervisory framework supporting the development of European capital markets, notably through its work on the European single access point (ESAP), on the retail investment strategy, and EC initiatives to facilitate SMEs access to public markets.
    - **Sustainable finance**. Develop rules on environmental, social and governance (ESG) disclosures and risk identification methodology for ESG factors, and work with national authorities to prevent the risk of greenwashing.
    - **Innovation and digitalization**. Contribute to the implementation of the Digital Operational Resilience Act (DORA), the Markets in Crypto Assets Regulation (MiCA) and the regulation on a pilot regime for market infrastructures based on distributed ledger technology.
  - Supervisory Convergence. ESMA will continue to contribute to a risk-based, consistent and coordinated approach to supervision in the EU, focused on assessing the results of Union Strategic Supervisory Priorities and reviewing its supervisory convergence toolkit.
  - Risk Assessment. Strengthen its risk identification work and co-operation with National Competent Authorities (NCAs) and EU and international public authorities.
  - Single Rulebook. Priority areas include contributing to the reviews of MiFID II/MiFIR, Regulation on retail and insurance-based investment products (PRIIPS), the Short Selling Regulation, and Central Securities Depositories Regulation (CSDR), as well as maintaining a high degree of transparency when developing regulatory provisions.
  - Direct Supervision. ESMA will continue to prioritise the areas where it has been entrusted with supervisory responsibilities notably for Credit Rating Agencies and Securitisation and Trade Repositories. In 2022, it will additionally focus on critical benchmarks and Data Reporting Service Providers which will come under its direct supervision and play an important role in the oversight of critical market infrastructures.

07/10/2021
Single Programming Document 2022-2024

1. Context

The Single Programming Document 2022-2024 sets out EIOPA's strategy for the coming years under the overarching goal of building a safe and sustainable EU for citizens. The EIOPA activities take into account the ongoing effects of COVID-19, the market situation and political priorities, in particular supporting the digital and green recovery.

2. Main points

- Under the twin objectives of ensuring consumer protection and safeguarding financial stability, EIOPA will pursue **six strategic areas**:
    - Integrating sustainable finance considerations across all areas of work, including promotion of sustainability disclosures and a sustainable conduct of business framework.
    - Supporting the market and supervisory community through digital transformation, including the preparation of Regulatory and Implementing Technical Standards from the digital operational resilience act (DORA), and continuous implementation of the cyber underwriting strategy. Furthermore, the EIOPA will continue to implement the data strategy, including contributing to the European Commission strategy on supervisory data, and the development of SupTech activities.
    - Enhancing the quality and effectiveness of supervision, including the provision of training on Solvency II to national authorities. Furthermore, EIOPA will work on issues related to national supervision, conduct of business supervision and supervisory data.
    - Ensuring technically sound prudential and conduct of business policy, including follow-up to the Solvency II review and the provision of technical advice on the scheduled review of the institutions for occupational retirement provision Directive (IORP II).
    - Identifying, assessing, monitoring and reporting on risks to the financial stability and conduct of business and promoting preventative policies and mitigating actions, including the provision of timely and accurate financial stability analyses and risk assessments. EIOPA will continue to monitor, identify and report on trends, potential risks and vulnerabilities at the macro-prudential level.
    - Ensuring good governance, agile organisations and strong corporate culture. EIOPA will continue to ensure transparency and accountability in its governance arrangements and stakeholder relations.

03/12/2021
Methodological Framework for Stress-Testing IORPs

1. Context

Stress-testing of financial institutions has evolved considerably in recent years and has become a key tool for supervisors to identify and assess risks and vulnerabilities in the financial system. EIOPA is mandated to conduct regular EU-wide stress testing exercises for the European occupational pension fund industry, in collaboration with the European Systemic Risk Board.

In this context, EIOPA has published a **methodological framework for the stress-testing of occupational** pension funds, which presents a set of standard approaches, practical rules and possible methodologies to support the design phase and management of future stress testing exercises for IORPs. In particular, the methodological framework establishes horizontal approaches and types of analysis that can be applied to all types of IORPs; a toolbox approach to choose the most relevant set of analyses; and approaches to address new and emerging risks, in particular environmental risks.

2. Main points

- **Scope of the methodology paper**. This methodology paper focuses only on bottom-up supervisory strategies.
- **Dual perspective of stress-testing in relation to EIOPA's mandate**. Given that IORPs are different financial institutions than for example banks or insurers, there is a dual perspective of EU-wide IORP ST exercises:
    - Perspective one aims to <u>assess whether IORPs are able to meet their institutional goals also in an adverse scenario</u>.
    - Perspective two aims to <u>assess the transmission effects onto financial stability of the impact of an adverse scenario on the IORP sector</u>.
- **Toolbox approach and horizontal applicability of tools**. It involves guidance in the selection of the appropriate tools so that the determined objective can be effectively evaluated.
    - <u>Candidate instruments</u>:
        - **Balance sheets** to value assets and liabilities at a given point in time. Both the National Balance Sheet (NBS) and the Common Balance Sheet (CBS) should be calculated at a certain reference date and reflect all assets and liabilities of a pension fund.
        - **Projection tools**. Projections should be accompanied by clear and detailed descriptions to extrapolate trends and establish inputs to promote comparable results. Three different types of projection tools are presented: i) Internal rate of return calculation, whereby the required return on benefits is calculated; ii) Cash flow tools, and iii) Tools for projecting member and beneficiary income.
        - **Survey tools**. They include elements of different scope: i) the Investment Behaviour Survey (IBS); ii) the Stock Take Surveys (STS); and iii) the Background Survey (BS).
    - <u>Relation with stress-test perspectives</u>:
        - **Assessment of the financial position of IORPs**. The assessment of the financial position of the pension fund covers: i) its capital adequacy (if applicable) and solvency; ii) its liquidity position; iii) its potential to sustain its business in the future; and iv) the transmission of risks to the ultimate risk bearers of the IORP.
        - **Assessment of the transmission effects of adverse economic scenarios via the IORP sector onto financial stability**. To assess these effects, the following areas can be explored: i) the direct impact on financial markets and financial stability; and ii) the direct impact on the real economy and the indirect transmission effect on financial stability. In doing so, it is important to take into account the provisions of national frameworks to obtain a realistic view of the timing and impact of the recovery mechanisms that would actually be implemented.
- **Scenario design, risk factor selection, shock application**.
    - <u>Building the adverse scenario</u>. The design of the adverse scenario narrative has to stay close to the current macro-financial environment as the baseline situation and take into consideration new potential risks arising in the financial markets, resulting in a plausible scenario.
    - <u>Risk factors</u>. The risk factors from which a scenario may be designed are discussed. The relevance of the risk in the context of an IORP stress test exercise is discussed, followed where appropriate with a discussion of potential approaches for the assessment of the risk in a stress test.
    - <u>Granularity</u>. A granular approach can contribute to the goal of gauging the effects of a plausible, yet severe, negative scenario by adding realism to the scenario.
    - <u>Shocks and their application</u>. IORPs are requested to apply the shocks to their full balance sheets following the prescribed guidance and to calculate their positions under the adverse scenario.
        - The **approach taken to value the balance sheets in the adverse scenario**, including assumptions regarding the behavior of members and beneficiaries, as well as the IORPs' future management actions, should be **consistent with the valuation of the balance sheets in the baseline scenario**.
        - When calculating the balance sheets in the adverse scenario, IORPs should take into account the **mitigating effects of financial and insurance risk mitigation techniques on the value of these financial instruments**. In addition, they should take into account the direct and **indirect effects of the adverse scenario** on technical provisions and the value of insurance mechanisms.

- **Environmental stress testing for IORPs**. EIOPA includes specific references to potential environmental developments and risks in the context of a stress testing regime. The following aspects are relevant in designing an adverse climate scenario:
    - The stress test will have to be based on some assumed climate change scenario in the future and on some assumed policy response to this future development.
    - The scenario must be specified considering different levels of asset-level granularity.

08/10/2021
2022 Annual Work Programme

1. Context

The EBA has published the **2022 work programme** setting out the activities and priorities for the coming year. The EBA's work in 2022 will largely be a continuation of work carried out in 2021. Further developing a relevant environmental, social and governance (ESG) framework for banks, and ensuring the monitoring of the impact of COVID-19 on their balance sheets.

2. Main points

- The EBA's **priorities** focus on:
  - Monitor and update the prudential framework for supervision and resolution. The EBA will continue to monitor the health of banks while supporting any possible additional work of the co-legislators in this regard.
  - Revisit and strengthen the EU-wide stress-testing framework. The EBA will collect feedback from the lessons learned in the 2021 stress test and use it for the preparation of the 2023 stress-test exercise. The new features of the revised approach will focus on making the exercise more integrated into supervisory processes and incentivising banks even more to further develop their risk-management frameworks.
  - Leverage the European centralised infrastructure for supervisory data (EUCLID). The EBA will expand the scope of EUCLID so that this single entry point for reporting data to the EBA is not limited to supervisory or resolution data. In 2022, the EBA will start collecting from the ECB payment fraud data from EU countries.
  - Deepen analysis and information-sharing on Digital Resilience, Fintech and Innovation. The EBA will continue its monitoring of and response to technological innovation and ICT and cyber risks, with a view to strengthening the operational resilience of the financial services in its scope.
  - Fight anti-money laundering (AML) / combating the financing of terrorism (CFT).The EBA will ensure policy development and consistent implementation to support AML / CFT supervisors and to ensure effective coordination with prudential, payments and conduct supervisors.
  - Provide tools to measure and manage ESG risks. The EBA will monitor the effective implementation of ESG disclosure standards of key metrics, such as the Green Asset ratio (GAR) and gradually expand the scope of disclosure reflecting the development of the EU taxonomy and data availability.
  - Monitor and mitigate the impact of COVID-19. The EBA will monitor by assessing the impact of the crisis on asset quality and provisioning, and by monitoring the effect of moratoria and public guarantees. The EBA will also support the continued implementation of customer centric NPL management.

26/11/2021

Monitoring Report on the International Financial Reporting Standard (IFRS 9) implementation by EU institutions

1. Context

In January 2018 the international accounting standard IFRS 9 entered into force and introduced changes in credit loss provisioning by moving from an incurred loss model (under IAS 39) to an expected credit loss (ECL).
In December 2018, the EBA published the last report on the first observations on the impact and IFRS 9 by EU institutions. Furthermore, the EBA has conducted additional activities with the aim of monitoring EU institutions' practices in the context of the COVID-19 pandemic, in order to better understand the impact of IFRS 9 on capital requirements.

In this context, the EBA has published the **Monitoring Report on the IFRS 9 implementation by EU institutions** which summarises the findings arising from the EBA's investigations since the publication of its last report in December 2018. The conclusions include the effect of the COVID-19 scenario on the calculation of provisions, requiring some rapid adjustments to the models, as well as greater flexibility in the criteria used by institutions. This Report will assist supervisors evaluate the quality and adequacy of IFRS 9 ECL models, in order to contribute to a high-quality and consistent application of the IFRS 9 standard in the EU.

2. Main points

- **Methodology.**
    - Sample. The sample of institutions considered 47 institutions across 20 Member States, which cover roughly 60% of the total assets of the EU banking groups applying IFRS. Most of the banks in the sample are identified as Global Systemically Important Institutions (G-SIIs) or as Other Systemically Important Institutions (O-SIIs). This sample is consistent with the one used in the previous EBA impact assessments with some necessary adjustments, mainly due to the exclusion of UK institution.
    - Sources of information. The quantitative data used for the purpose of this assessment correspond to: i) the supervisory data reported by banks to competent authorities via COREP/FINREP templates; ii) the additional quantitative data gathered through the ITS on supervisory benchmarking collected on the first time on 31 December 2020; iii) the two ad hoc benchmarking exercises launched in July 2019 and July 2020 and iii) information gathered through the EBA notifications on the application of the IFRS 9 CRR transitional arrangements**, in particular the "quick fix" of CRR II introduced in June 2020 as a response to the COVID-19 pandemic.**
- **Main findings and observations**. The main observations included in the report deal with the following aspects:
    - Staging assessment. Limited changes observed in banks' significant increase in credit risk (SICR) approaches during the first half of 2020. The use of a SICR collective assessment or any other approach to timely capture factors that would not be identified at an individual level remains very limited.
    - ECL models. COVID-19 pushed IFRS 9 models outside their boundaries thereby increasing the use of overlays leading to more divergence in terms of materiality of the impact in the final ECL amount.
    - IFRS 9 probability of default (PD) variability and robustness. The IFRS 9 12-month PD estimates and variability generally increased during the pandemic, as a result of the incorporation of the forward looking information and their point in time nature, while the IRB PDs remained comparatively relatively stable.
    - Incorporation of forward-looking information. The impact on ECL stemming from the incorporation of forward looking information increased during the pandemic and varied significantly across institutions. Some practices have been observed that deserve further scrutiny from supervisors.
    - Classification and measurement. A wide array of practices was observed in the context of the IFRS 9 business model assessment. Due to this lack of consistency, this area would deserve further attention and an adequate level of guidance and review.
    - Recognition and derecognition. Some discrepancies have been observed in the derecognition of financial assets and/or recognition of accrued interest. In some cases some further attention from supervisors is required, for instance, when high percentages of recoveries after write-offs are observed or when recognition and presentation of the accrued interest related to non-performing debt instruments leads to non-comparable outcomes.
    - Application of IFRS 9 transitional arrangements and other prudential observations. Only one third of institutions made use of the IFRS 9 transitional arrangements under the CRR. The overall picture did not change materially, which indicates that only a few institutions decided to make use of the CRR quick-fix. The simple average CET1 impact of the application of the IFRS 9 transitional arrangements was equal to 119 bps for the EU banking sector as of December 2020.
- **Areas of work.** The EBA will continue monitoring and promoting consistent application of IFRS 9 as well as working on the alignment with prudential requirements. In this regard, IFRS9 monitoring activities will be strengthened and, as a result, the focus and scope of IFRS9 supervisory benchmarking exercises will be broadened. In particular, the following changes are proposed:

2. Principales aspectos (Cont.)

- The new data and information that will be collected via the ITS on supervisory benchmarking will allow: i) to extend the scope of the exercise to a larger sample of institutions including the ones applying Standardised Approach (SA) for credit purposes; and ii) to conduct further analyses on additional IFRS 9 parameters.
- The EBA will continue its work on the extension of the IFRS 9 benchmarking exercise on high-default portfolios (HDPs). Firstly, this will provide more insightful information on the sources of variability in the ECL measurement since this variability is expected to be higher for the HDPs. Furthermore, this milestone implies a change in logic of the analysis, as it would involve a comparison of the model outputs not for common counterparties but instead for commonly defined portfolios.

3. Next steps

- The EBA will continue to monitor and promote the consistent application of IFRS 9, as well as work on alignment with prudential requirements.
- The EBA will use the findings of this report when participating in the International Accounting Standards Board's (IASB) assessment of the implementation of IFRS 9.

10/12/2021
Risk assessment report and 2021 EU-wide transparency exercise

1. Context

The EBA has published its annual Risk Assessment Report (RAR), which describes the main developments and trends that have affected the EU banking sector since June 2020 and provides an outlook on the main risks and vulnerabilities. In particular, the RAR includes aggregate results on capital position, return on equity (RoE), non-performing loans (NPL) ratio, and coverage ratio of NPLs. Moreover, the RAR also addresses other aspects such as the level of liabilities, operational risks or risks to the global economy. This year, the RAR shows improvements in EU banks solvency, profitability and liquidity, but asset price corrections remain a key threat. In addition, as a new feature, progress in relation to environmental, social and governance (ESG) risk management has been included.

Moreover, along with the RAR the EBA has published the **results of the Autumn EU-wide 2020 transparency** exercise which provides detailed information for 120 banks across 25 European Economic Area (EEA)/EU countries. Unlike the last transparency exercise, following the United Kingdom's (UK's) departure from the EU, banks domiciled in UK are no longer included in the figures based on supervisory reporting data. The data available provides disclosure on banks' assets and liabilities, capital positions, risk exposure amounts, leverage exposures and asset quality. According to them, the potential asset quality deterioration have not materialised, except for the sectors most affected by the pandemic.

2. Main Points

- **Sample of banks in the RAR**. The RAR builds on the supervisory reporting data that competent authorities submit to the EBA on a quarterly basis for a sample of 155 banks from 28 EEA countries (125 banks at the highest EEA/EU level of consolidation from 25 countries). Based on total assets, this sample covers about 80% of the EU banking sector.
- **Reference date of the RAR**. The data presented in the RAR is as of 30 June 2021.
- **Data for the RAR**. The RAR is based on qualitative and quantitative information collected by the EBA. The report's data sources are the following:
    - **EU supervisory reporting data.**
    - **The EBA risk assessment questionnaire (RAQ), addressed to banks and market analysts.**
    - **Market intelligence on as well as microprudential qualitative information.**
- **Results of the RAR**. Despite the robust economic recovery in the last quarters and the progress in COVID-19 vaccination, vulnerabilities remain.
    - Banks' capital and liquidity positions have further improved. The average Common Equity Tier 1 (CET1) ratio has increased on the back of strong results in the first half of 2021. The availability of central bank funding has allowed banks to maintain comfortable liquidity positions. Banks' net stable funding ratio (NSFR) reached on a higher average, although analysis in the report shows that it would be significantly lower if central bank funding was excluded from the numerator. Amidst increasing rate volatility, banks should carefully evaluate the risk profile of their funding plans and ensure they are able to substitute current central bank funding with other sources of funding.
    - Asset quality has improved overall but concerns remain for loans to specific sectors and those that have benefited from support measures. The NPL ratio has further decreased this year supported by several large NPL securitizations. The asset quality of loans under public guarantee schemes and under moratoria is a source of concern as an increasing share of these loans are being classified under stage 2 or as NPL. Accelerating house price increases along with banks' recent focus on mortgage lending may become a source of vulnerability going forward.
    - Operational risk losses have increased during the pandemic. The growing usage of and reliance on technology has been accompanied by a rising number and impact of information and communication technologies and security-related incidents.
    - Lower impairment costs have increased profitability, but structural challenges remain. Banks' net operating income has not recovered to pre-pandemic levels. The low and negative interest rate environment is still weighing on lending margins. This adds to high competition not only among banks, but also with FinTech and BigTech companies. Despite the acceleration in branch closures during the pandemic, operating expenses have stabilised in the past year as pre-existing working arrangements have gradually resumed.
    - Banks have made some progress related to ESG risk considerations. The share of ESG bonds of total bank issuances has increased in recent years. Banks have started integrating ESG risk considerations into their risk management. However, there is significant progress to be made, including in areas such as data, business strategies, governance arrangements, risk assessments and monitoring.

Overview of key figures:

	Ratio CET 1 (transitorio)	Ratio CET 1 (fully loaded)	Ratio de cobertura de liquidez	Ratio NPL	Porcentaje de préstamos en Stage 2	RoE	Ratio de apalancamiento (fully phased-in)
T2 2021	15,8%	15,5%	174,5%	2,3%	8,8%	7,4%	5,7%
T2 2020	15,0%	14,7%	166,2%	2,9%	8,2%	0,4%	5,1%

Reference date as of June 2020 (Q2 2020) and June 2021 (Q2 2021)

15/12/2021
Interest rate risk arising from non-trading book activities

1. Context

The Capital Requirements Directive (CRD IV) mandates the EBA to develop draft regulatory technical standards (RTS) to specify the supervisory shock scenarios and modelling and parametric assumptions for the supervisory outlier test (SOT) on Economic Value of Equity (EVE) and the SOT on (NII). Additionally, CRD mandates the EBA to issue Guidelines (GL) to specify the criteria for the evaluation identification, management and mitigation of the interest rate risk of an institution's non-trading book activities (IRRBB). In this respect, in 2018 EBA published GL on the management of IRRBB. On the other side, CRD IV mandates EBA to develop a standardised (SA) and simplified standardised (S-SA) methodology for the purpose of the evaluation of the risks arising from potential changes in interest rates that affect both the EVE and the NII of IRRBB activities.

In this context, the EBA has launched three consultations specifying technical aspects of the revised framework capturing IRRBB positions. The first **on draft RTS on the IRRBB SOT** which give continuation to the GL of 2018 with some additional specifications and introduce the specificities for the SOT on NII; the second on **draft Guidelines on IRRBB and credit spread risk arising from non-trading book activities (CSRBB)** which replace the GL of 2018 and introduces additional criteria for the assessment and monitoring by institutions of their CSRBB; and the third **on draft RTS on the IRRBB standardized approach** which introduce reliable numerical estimates of institutions' exposures to IRRBB.

2. Main points

<u>Consultation paper on draft RTS on IRRBB supervisory outlier tests</u>

- **SOT on EVE**. Here A SOT is envisaged to identify institutions of which, in the context of a shock scenario, their economic value of equity (EVE) declines by more than 15% of their Tier 1 capital. Also, the RTS specify:
    - <u>The six supervisory shock scenarios</u> that set out the change in interest rates under which the impact on the EVE shall be assessed.
    - <u>The treatment of the institution's own equity</u>, in the calculation of the EVE.
    - <u>The inclusion, composition and discounting of cash flows sensitive to interest rates arising from the institution's assets, liabilities and off-balance-sheet items</u>, including the treatment of commercial margins and other spread components, in the calculation of the EVE.
    - <u>The use of dynamic or static balance sheet models and the resulting treatment of amortised and maturing positions, new business assumptions</u>, in the calculation of the EVE
- **SOT on NII**. As a novelty, the draft RTS envisages a SOT to identify institutions of which, in the context of a shock scenario their NII experiences a large decline which is calculated as a result of two mathematical formulae. Also, the RTS specify:
    - <u>The two supervisory shock scenarios</u> that set out the change in interest rates under which the impact on the NII shall be assessed.
    - <u>The inclusion and composition of cash flows sensitive to interest rates arising from the institution's assets, liabilities and off-balance-sheet items</u>, including the treatment of commercial margins and other spread components, in the calculation of the NII.
    - <u>The use of dynamic or static balance sheet models</u> and the resulting treatment of amortised and maturing positions, new business assumptions, in the calculation of the NII.
    - <u>The period over which future net interest income shall be measured</u>.

<u>Consultation paper on draft Guidelines on IRRBB and CSRBB</u>

- **Criteria for the identification, management and mitigation by institutions of** IRRBB either if they implement internal systems or use the standardised methodology or the simplified standardised methodology for the evaluation of IRRBB.
    - <u>Institutions should consider all interest rate sensitive instruments in the banking book</u> in the context of the assessment and management of exposures to IRRBB.
    - <u>Institutions should consider non-performing exposures</u> as interest rate sensitive instruments reflecting expected cash flows and their timing.
- **Criteria for the evaluation – measurement of IRRBB** if an institution implements internal systems for it.
    - <u>Institutions should implement robust internal measurement systems</u> (IMSs) that capture all components and sources of IRRBB which are relevant for the institution's business model.
    - <u>Institutions should measure their exposure to IRRBB</u> in terms of potential changes to both the EV and NII.
    - Institutions should <u>use complementary features of both approaches to capture the complex nature of IRRBB over the short-term and long-term time horizons</u>.
    - When calculating NII measures to evaluate IRRBB exposures, <u>institutions should include commercial margins</u>.
    - <u>Institutions should consider non-performing exposures (net of provisions) as interest rate sensitive instruments</u> reflecting expected cash flows and their timing.

- **Criteria for the assessment and monitoring by institutions' internal systems of CSRBB**.
    - When assessing changes in credit risk premium and liquidity premium movements, institutions can consider currency specific dimensions (i.e. EUR, USD, etc.) as relevant dimension for market credit spread and market liquidity spread.
    - Institutions should not exclude any instrument in the banking book from the perimeter of CSRBB ex ante, including assets, liabilities, derivatives and other off-balance sheet items. Any potential exclusion of instruments from the relevant perimeter should be done in the case of the absence of sensitivity to credit spread risk and should be appropriately documented and justified.
    - Institutions should ensure that their management body bears the ultimate responsibility for the oversight of the CSRBB management framework and the institution's risk appetite framework to adequately cover the risks.
    - Institutions should ensure that they have in place a CSRBB management framework that establishes clear lines of responsibilities and that consists of policies, processes and internal controls including regular independent reviews and evaluations of the effectiveness of the framework.
    - Institutions should implement robust internal measurement systems (IMSs) that capture all components and sources of CSRBB which are relevant for the institution's business model.
    - Institutions should monitor their exposure to CSRBB in terms of potential changes to both the economic value and net interest income. Institutions should use complementary features of both approaches to capture the complex nature of CSRBB over the short-term and long-term time horizons.
    - Institutions should develop and use their own assumptions and calculation methods for the assessment of CSRBB.

Consultation paper on draft RTS on IRRBB standardised approach

- **General structure of the standardised approaches**. The draft RTS specifies a collection of procedural aspects and applicable assumptions both for the SA on EVE and, as a novelty, for SA on NII, as well as for the respective simplified standardised approaches. Three main components are identified to estimate the level of NII within a given horizon, namely: i) the aggregation of interest rate payments that are already fixed, the projection of ii) risk free yield and of iii) commercial margin for repricing cash flows.
- **Steps and assumptions in the calculation of EVE and NII.**
    - Behavioral cashflows. Institutions are expected to determine several components regarding behavioural cash flows in the baseline scenario based on relevant historical data, combined with standardised constraints and assumptions provided by the EBA.
    - Calculation risk free rate and commercial margins. For the calculation of the risk-free rate and commercial margins, it is necessary to make assumptions regarding the risk-free curve, the original maturity of repricing cash flows and the rate used as the commercial margin component of NII.
    - Simplified Standardized Approaches. For the S-SA on EVE and NII the proportion of the core component of Non-Maturing Deposits (NMDs) is fully prescribed, as a standardised linear behaviour is proposed, as well as additional simplifications for the calculation of automatic optionality, average maturities and interest calculation.
    - Inclusion of fair value effects in the NII. For automatic options accounted for at fair value an additional treatment has been introduced.
    - Inclusion of basis risk in the NII. Inclusion of a component in the SA on NII in accordance to which institutions are required to estimate and add the impact of basis risk.

3. Next Steps

- Comments to this consultation documents can be sent before **4 April 2022**.
- The draft RTS will be submitted to the Commission for endorsement following which they will be subject to scrutiny by the European Parliament and the Council before being published in the Official Journal of the European Union.

22/12/2021
Report on the feasibility study on the integrated reporting system

1. Context

Since the financial crisis, the reporting requirements that institutions provide to EU authorities have expanded due to additional information needs, contributing to the objectives of financial stability, market integrity and consumer protection. However, a common problem for institutions are the reporting costs that they encounter due to the lack of efficiency and proportionality of the reporting requirements. As a result, the EBA has been mandated in Article 430c of the Regulation 575/2013 on capital requirements (CRR) to prepare a feasibility study for the development of a consistent and integrated reporting system for statistical, resolution and prudential data. Therefore, in March 2021 the EBA published a Discussion Paper on the feasibility of developing an integrated reporting system to collect feedback for the preparation of its final Report in this area.

In this context, the EBA has published the **Final Report on feasibility study on the integrated reporting system**, based on the analysis and feedback received by the EBA on its comprehensive discussion paper. The Report puts forward a long-term vision on how the reporting processes could be streamlined and improved for both institutions and competent authorities and how cooperation among the latter could be enhanced in the area of prudential, resolution and supervisory reporting.

2. Main points

- **Objectives of the study**. The EBA aims to identify and assess shortcomings with a view to reducing the administrative and financial costs, both for the authorities and for the institutions, and to improving the overall efficiency of the statistical, resolution and prudential reporting process. For the preparation of this feasibility study, the EBA has built on the following objectives:
    - Increasing the efficiency of reporting for institutions and authorities by standardising reporting.
    - Facilitating the exchange of data and its usability.
    - Improving the data quality.
- **Overview of an integrated reporting system**.
    - An integrated reporting system represents a way of organising the reporting process with the aim of streamlining and improving reporting for institutions authorities and enhancing cooperation among the latter. A key building block of the system is the adoption of a data dictionary as a common set of formal definitions and information requirements to define data and enable digital processing and efficient data sharing. In addition, some form of a common collection system may facilitate the reporting and coordination process, while being mindful of the data needs of the authorities. It should be supported by governance to ensure the quality, harmonization and efficiency of the process, as well as the necessary collaboration and allocation of responsibilities.
    - From each core area (data dictionary, central data collection point and governance) some objectives have been identified as feasible to achieve with further integration of reporting.
    - Finally, a set of principles for building an integrated reporting system have been developed.
- **Forward considerations.**
    - It is intended to set off an Informal Joint Reporting Committee (IJRC) in order to continue discussions within the authorities involved to prepare a roadmap until the formal set-up of the Joint Reporting Committee (JRC).
    - Possible actions have been set to serve as a basis for building a more detailed roadmap for the JRC to develop an integrated reporting system. These are:
        - Defining a **common data dictionary** for prudential, statistical and resolution data.
        - Increasing the **granularity** of reporting requirements.
        - Investigate the need for a common solution for **institutions' compliance process**.
        - Further investigate the **desired target scenario** based on a cost-benefit assessment of the Central Data Collection Point (CDCP).
        - Developing **strong governance arrangements**.
        - Provide an **estimate of costs and resources needed**.

- **Core areas analysed**.
    - Data dictionary: The data dictionary is considered a fundamental piece of a solution of regulatory integrated reporting. The proposal is to have one unique regulatory data dictionary (RRD) at European level using a shared vocabulary and one single standard syntactic model to support all the frameworks of different authorities. By providing all concepts integrated under the same RDD, regulators will improve clarity on regulatory requirements and enable reductions on compliance costs of institutions.
    - Central Data Collection Point (CDCP): It is discussed the feasibility and possible design of a CDCP for the integrated reporting system, which contains a central data register with all statistical data, resolution data and prudential data, and that takes into account the proceedings and processes of competent authorities and transfers them into a standardised system. In addition, a sequence of possible scenarios in which the integrated system could be implemented with different levels of achievement is described.
    - Governance:
        - **The JCR**. The governance arrangements of the future integrated reporting system should allow strong cooperation among the different authorities involved (joint governance) to avoid a silo approach and improve data sharing among authorities and all other stakeholders The JRC would act as a forum for authorities involved in the efficient implementation and development of the integrated reporting system by taking an advisory and coordination role along the reporting process.
        - **Governance arrangements for data standardization**. It is necessary, in order to increase the efficiency of reporting requirements and avoid duplication, to identify where coordination, collaboration and/or joint work is necessary and where the JRC could have a role in ensuring reporting requirements would be integrated going forward.
        - **Governance arrangements for data collection**. A precise governance model will need to be defined following the architectural design, but a hybrid model of centralised and coordinated decentralised model could be achieved.
        - **Governance arrangements for the data exploration**. Improved data-access and data-sharing arrangements across the relevant authorities at national and EU level would further increase the value of reported data and streamline the reporting processes by reducing the duplication of data collected by multiple authorities. For this purpose, is necessary to define principles for data access and assess the existing legal obstacles.

22/12/2021

Final Guidelines on the characteristics of a risk-based approach to AML supervision and Guidelines on cooperation between prudential supervisors, AML/CFT supervisors and FIUs

1. Context

In recent years, a series of high-profile money laundering and countering the financing of terrorism (AML/CFT) cases have highlighted the need for further improvements to the EU AML/CFT framework and its implementation by its addressees. To do so, Capital Requirements Directive (CRD) introduced an explicit cooperation obligation between prudential supervisors, AML/CFT supervisors, and financial intelligence units and removed barriers to effective information exchange between those authorities that were linked to confidentiality rules.

In this context, the EBA has published the **revised Guidelines on risk-based supervision of credit and financial institutions' compliance with AML/CFT obligations**, which specify the characteristics of a risk-based approach to AML/CFT supervision and the steps competent authorities should take when conducting AML/CFT supervision on a risk-sensitive basis. Furthermore, the EBA has published the **Final Guidelines on cooperation and information exchange between prudential supervisors, AML/CFT supervisors and financial intelligence units**, which set out general provisions and practical modalities for the cooperation and information exchange as well as requirements for the cooperation between the relevant authorities domestically and on a cross-border basis.

2. Main points

Risk-based supervision Guidelines

The revised Guidelines take into consideration changes in the EU legal framework that came into force since the original Guidelines were first issued in November 2016, as well as new international guidance by the Financial Action Task Force (FATF) and the Basel Committee on Banking Supervision (BCBS) on this topic.

- **Implementing the RBS model**. The RBS model involves four steps: i) the identification of risk factors; ii) the assessment of the ML/TF risks; iii) the supervision of subjects of assessment; iv) and the monitoring and review of the model.
    - The revised guidelines set out additional guidance for competent authorities on each of the steps to ensure that the RBS Model is developed and implemented effectively across all sectors and across the EU.
- **Step 1 – Identification of risk and mitigating factors**. In order to implement their RBS Model, competent authorities should firstly identify the risk factors that will affect the ML/TF risks to which the subject of assessment is exposed. The revised guidelines provide further clarifications on the need for risk assessments by sector and the type of information and sources of information that competent authorities should use to identify the risk factors within sectors and subjects of assessment.
- **Step 2 – Risk Assessment**. Obligates competent authorities to have a clear understanding of the ML/TF risk present in their Member States.
    - The revised guidelines set out the main components of a risk assessment. For precision purposes and in order to emphasize the importance of the sectoral risk assessment, the revised guidelines make a distinction between individual risk assessments of subjects of assessment and sectoral/ sub sectoral risk assessments.
    - The guidelines also introduced a requirement for competent authorities to develop a good understanding of ML/TF risks associated with the group.
- **Step 3 – Supervision**. In line with the FATF guidance, a risk-based approach to supervision involves tailoring the supervisory actions and response to address the specific risks within the sector or subjects of assessment. The guidelines have been revised to address weakness identified by FATF and the EBA related to the risk-based supervision in the EU. Competent authorities should ensure that subjects of assessment exposed to significant and very significant ML/TF risks are subject to more frequent and intrusive supervision than those exposed to moderately or less significant risks. Some of the adjusted elements are: i) ratio between off-site and on-site supervisory tools; ii) the frequency of the supervision; or iii) the intensity and intrusiveness of the supervision.
- **Step 4 – Monitoring and updating of the RBS model**. The guidelines set out that in the final step of the RBS Model, competent authorities are required to review their approach, including their risk assessments and their methodology, and their supervisory strategy and plans. As a result, if inconsistencies or weaknesses are identified, the guidelines require competent authorities to make adjustments where necessary.

Final Guidelines on cooperation and information exchange between prudential supervisors, AML/CFT supervisors and financial intelligence units

- **Mechanisms for cooperation, information exchange and confidentiality treatment**. These should be in place to support the cooperation and information exchange both in the domestic and cross-border context.
    - The cooperation between AML/CFT and prudential supervisors. Information deemed relevant for another authority should be transmitted on own initiative and without undue delay, unless it is obvious to the owner of the information that the potential receiving authority already holds that information.
    - Cooperation between supervisors and financial intelligence units. Information gathered by the supervisors should be transmitted to these units if relevant to their tasks.
    - Confidentiality restrictions and permissible uses of information. The Exchange of information between supervisors and units will be ensured to go through secure channels.
- **Authorisation, suitability assessments, and withdrawal of authorisation**.
    - Authorisation to institutions. In assessing an application for authorisation, prudential supervisors should cooperate and exchange information with the relevant AML supervisor for the purposes of their assessment.
    - Members of the management body and key function holders. When assessing or re-assessing the suitability of members of the management body and key function holders, prudential supervisors should cooperate and exchange information with AML/CFT supervisors for the purpose of their assessment, in particular, with regards to the assessment of whether there are reasonable grounds to suspect that money laundering or terrorist financing is being or has been committed or attempted.
    - Withdrawal of authorisation. The prudential supervisor should inform the relevant AML/CFT supervisor of the withdrawal. AML/CFT supervisors should inform the prudential supervisor without undue delay of any serious breaches of the applicable AML/CFT laws, including detailed information of the breach.
- **Ongoing supervision**.
    - Notifications to exercise the freedom of establishment or to provide services. The prudential supervisor should share information on the actual exercise of the freedom to provide services by the institution with the AML/CFT supervisor.
    - Mergers. Prudential supervisors should exchange information of the institutions merging, and the new institution created by the merger if it exists. The AML/CFT supervisor should notify the prudential supervisor of serious breaches of the applicable AML/CFT laws or material weaknesses in the merging institutions.
    - Outsourcing arrangements. Prudential supervisors should exchange information related to relevant outsourcing arrangements with the relevant AML/CFT supervisor. Such exchange should take place in particular in cases where the prudential supervisor has reasonable grounds to suspect that the outsourcing arrangements could impact the ML/TF risk exposure.
    - On and off-site supervision and risk asssessments. Prudential supervisors should request from AML/CFT supervisors information that is relevant for the Supervisory Review and Evaluation Process (SREP).
- **Supervisory measures and sanctions**. Communications regarding supervisory measures or sanctions between prudential supervisors and AML/CFT supervisors should detail the nature and extent of the underlying deficiencies, material weaknesses and serious breaches.

3. Next Steps

- The revised Guidelines on RBS model will apply from **16 March 2022**.
- The Guidelines on cooperation and information exchange will apply from **1 June 2022**.

02/11/2021
Operational Guidance for Banks on separability for transfer tools

1. Context

In April 2020, the SRB published the Expectations for Banks (EfB) document that sets out its expectations towards banks under its remit in order to ensure an appropriate level of resolvability and It also sets out the expectation for banks to deliver separability analyses by the end of 2023.

In this context, the SRB has published the **Operational Guidance on Separability**. This guidance provides more detail to banks on how to concretely deliver the relevant information and analysis, namely through an analytical document known as the separability analysis report (SAR), and an operational document, the transfer playbook.

2. Main points

- **SAR.** Banks are expected to deliver a SAR, which is an analytical document intended for the resolution authority and for potential investors. It should contain the following parts:
    - A perimeter identification. The institution should present in this section the proposed transfer perimeter, its composition and the main arguments for its proposal.
    - Separability assessment. The institution should assess the interconnections, which can be financial, legal, operational or business interconnections, with the perimeter established. The institution should identify potential barriers or constraints to a smooth transfer implementation following the analysis of the interconnections and of other separability aspects.
    - Market interest and capacity. The institution should provide and assess a list of potential buyers and their suitability based on the perimeter, their financial strength, among other criteria.
    - Bank's information capabilities. The institution should provide a self-assessment of its capabilities to provide accurate and timely information on the transfer perimeter in resolution planning.
- **Transfer playbook**. In order to further operationalise and demonstrate the ability to implement the transfer of the proposed perimeter (including any perimeter shifts), the bank should also produce a transfer playbook. This will be used as an operational document intended for use by the institution itself, listing the processes needed, organisational units involved and concrete operational steps. The main elements of these playbook should be: i) governance, ii) timeline for implementation, iii) mitigation strategies for barriers and potential impediments to execution, and iv) communication with all the stakeholders. .

3. Next steps

- Banks must present either a preliminary analysis of the SAR or the SAR and transfer playbook by **December 31, 2022.**

30/11/2021
Work Programme 2022

1. Context

The SRB has published the **Work Programme 2022** which sets out its objectives and priorities for the year ahead, on the path towards full resolvability of the banks under the SRB's remit by the end of 2023. The SRB is committed to making banks fully resolvable by the end of 2023..

2. Main Points

The SRB priorities lie in the following five strategic areas, in line with the 2021-2023 Multi-Annual Programme (MAP):

- **Achieving resolvability of SRB Banks and Less-Significant Institutions (LSIs):**
  - Continue the implementation of the SRB Expectations for Banks (EfB). The common priorities are: i) liquidity and funding; ii) separability and reorganization plans; and iii) management information system capabilities.
  - Foster a level playing field in the banking union. The SRB will notify and make recommendations to banks about the impediments to its resolvability, and will use a new assessment heat map, which allows to track the banks progress.
  - Enhance the internal framework on deep-dives and On-site inspections (OSIs). The SRB will update its deep-dive guidance and perform quality assurance checks to ensure consistency.
- **Fostering a robust resolution framework**. The key areas for work are:
  - Update and enhance the MREL policy by i) reviewing the no-creditor-worse-off (NCWO) approach; ii) implementing upcoming European Banking Authority (EBA) regulatory technical standards (RTS) timely into the SRB policy; and iii) reviewing the MREL calibration for transfer strategies.
  - Deepen the operationalisation of the single point of entry (SPE). Through work on (i) the identification of legal and practical obstacles to the implementation of bail-in; ii) resolution powers in the execution of SPE strategies; iii) the use of arrangements, including contractual, safeguarding the availability of sufficient resources to support subsidiaries.
  - Introduce additional policy enhancements for the Public Interest Assessment (PIA).
  - Expand the policy work on Financial Continuity by introducing the operational guidance for the assessment of the identification and mobilisation of collateral.
  - Increase the consistency of the SRB Management Information System (MIS) architecture.
- **Preparing and carrying out effective crisis management**. The SRB will conduct dry-run exercise testing, among others, decision-making procedures and coordination with external stakeholders. In particular, the SRB will conduct a technical dry-run involving at least one resolution unit, one bank and one National Resolution Authority (NRA), with aiming at testing bail-in execution, among others, as well as some aspects of governance in crisis.
- **Operationalising the Single Resolution Fund (SRF)**. In early 2022, the Common Backstop to the Single Resolution Fund (SRF) will enter into force. This requires the SRB to implement its collateral policy and the methodology for the assessment of its repayment capacity.
- **The SRB will continue working towards a digital SRB, implementing its 2022 ICT strategy and development programme**. The SRB will also work to strengthen talent retention by developing dedicated learning and career opportunities. Lastly, in 2022 the SRB will implement the post-pandemic new normal hybrid working arrangements.

09/12/2021
Operational guidance on operational continuity in resolution

1. Context

On April 2020, the Single Resolution Board (SRB) published the Expectations for Banks (EfB) which sets out the capabilities to show that banks are resolvable including the dimensions of Operational Continuity in Resolution (OCIR) and access to Financial Market Infrastructures (FMIs). Following this publication in July 2020, the SRB published the Guidance on OCIR, which provided clarification to banks on how to implement the SRB's expectations. Along with this document, the Guidance on FMI contingency plans were published, which sets out expectations in relation to the minimum content of FMI contingency plans prepared by banks.

In this context, the SRB has published an update to its **Operational Guidance on OCIR**, an updated document that provides more detail on issues related to financial resilience and staffing. It aims to provide additional operational guidance for banks on the areas of OCIR included in the EfB and detailed in the specific priority letters sent by the SRB to banks under its purview.

2. Main Aspects

- **Scope of application and phase-in**: In line with the scope of the EfB, this operational guide is aimed at banks within the SRB remit for which the strategy is resolution. Its application to each bank is tailored to individual specificities, taking into account the principle of proportionality, and based on a dialogue between each bank and its Internal resolution team (IRT). However, the guidance is not exhaustive and may be subject to further communications from the SRB. Besides that, the EfB will be subject to a gradual phase-in according to the general phase-in dates.
- **Service identification and mapping**. Identification and mapping of the interconnectedness of the relevant services, enables banks to conduct an assessment of the risks to operational continuity in resolution, which will be the basis for identifying and implementing appropriate mitigating actions to address them, including preparedness measures. In this regard, banks are expected to:
    - Undertake and maintain a <u>comprehensive mapping of all relevant services</u> (provided by intragroup providers or by third parties) to the:
        - **Critical Functions (CFs) and Core Business Lines (CBLs)** needed for the effective implementation of the resolution strategy and consequent restructuring.
        - **Legal entities** (providing and receiving the services).
        - Relevant **operational assets and staff/roles** and their location (within the group and physically).
    - Undertake and maintain the <u>mapping of relevant services</u> and operational assets to the <u>contracts/arrangements governing them</u> (owned or licensed/leased).
    - Gather the above information in a <u>catalogue of relevant services</u> relationships across the group..
- **Assessment of operational continuity risk**. The scope of the assessment of risks to operational continuity by banks is expected to cover all relevant services, operational assets and staff/roles. To this end, in conducting the risk assessment, banks are expected to:
    - Use <u>interconnectedness mapping</u>.
    - Take into account elements such as:
        - The **disruption of relevant services** from third parties and other legal entities in the group.
        - The **loss of access to the bank's relevant operational assets**.
        - The **potential vacation of relevant functions in resolution**, including where relevant staff are employed by a group legal entity that could be wound down or divested in resolution.
    - Identify a <u>comprehensive list of risk drivers</u>, which are potential events that may cause the operational continuity risk to materialise.
    - Assess each <u>category or sub-category of relevant dependency identified</u> against the identified list of risk drivers.

- **Mitigating actions and preparedness measures**.
    - Actions to mitigate operational continuity risks and measures to improve banks' preparedness have ensured that identified business continuity risks in resolution are addressed through: i) appropriate mitigation actions; ii) measures to improve resolution preparedness and iii) measures to facilitate post-resolution restructuring.
    - As mitigation actions and preparedness measures, contractual agreements relating to relevant services and operating assets are included:
        - **Adequate documentation**. Banks are expected to adequately document all relevant services, in such a way as to allow resolution authorities to take resolution action while ensuring operational continuity.
        - **Resolution-resilient features – contractual provisions**. Resolution-resilient features are properties a relevant service contract is expected to have in order to be considered resolution-resilient.
        - **Resolution-resilient features – alternative mitigations actions**. Where contracts should be amended to ensure resolution-resilience, and banks have not been able to do so, banks are expected to explore alternative mitigating actions.
        - **Measures to ensure financial resilience of unregulated intra-group service providers**. As a novelty, banks in resolution may suffer from the discontinuity of relevant services if the service providers cannot perform their services due to the lack of financial resources to support the service provision.
        - **Measures to ensure that relevant roles are adequately staffed**: As a novelty, the revised guidelines introduce measures to ensure the continued staffing of relevant roles.
- **Adequate management information system (MIS)**. Banks are expected to have MIS capability to produce timely, customised reporting of upto-date data which enables rapid access to the information needed: i) to identify potential risks to service continuity resulting from entry into resolution; ii) to facilitate separability; and iii) to develop the bank's business reorganisation plan.
- **Governance arrangements**. Banks are expected to have adequate policy and governance arrangements in place to ensure that operational arrangements are implemented in such a way as to meet operational continuity expectations.

3. Next Steps

- Some measures on continuity of critical function are planned to be phased in by **2022** and on core business lines by **2023**.

EUROPEAN CENTRAL BANK
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18/10/2021
Climate risk stress test – Methodology

1. Context

The ECB is required to carry out annual stress tests on supervised entities in the context of its Supervisory Review and Evaluation Process. In this line, the ECB will carry out a stress test exercise on climate risk for 2022 and for this purpose must describe the methodological requirements.

In this context, the ECB has published **the Climate risk stress test methodology** which outlines the main characteristics of the 2022 climate risk stress test and provides banks with guidance on how to conduct the exercise.

2. Main points

- **Submissions and quality assurance process**. Banks are required to complete the template and produce results based on the instructions set out in the ECB methodology. The ECB will analyse the information submitted by banks to ensure that the submissions are: i) of a satisfactory quality, ii) aligned with the instructions set out in the methodology, and iii) provide comprehensive and reliable results for the prescribed assumptions and scenarios.
- **Stress test templates**. The climate risk stress test exercise is structured in three modules: (1) a qualitative questionnaire, (2) the calculation of climate metrics and (3) the bottom-up stress test projections.
    - Module 1: Qualitative questionnaire. The questionnaire concern qualitative information on the institution's current practices and comprises 11 blocks. Blocks 1 to 10 concern the day-to-day internal stress testing framework of the institution, while Block 11 concerns the assumptions developed by the bank in the context of the 2022 climate risk stress test exercise.
    - Module 2: Climate risk metrics. In the 2022 climate risk stress test exercise, all banks are requested to provide two climate-related metrics: one in relation to revenues from a set of emissions intensive sectors, and one in relation to the intensity of financed emissions. The metrics have been designed to shed light on banks' analytical and data capabilities regarding climate risk. In addition, the designed metrics give banks the opportunity to start building their databases and collecting climate-related data that will help them meet future regulatory requirements. Corporate exposures must be distributed between 22 industry groups according to the NACE codes. As per the second metric, emissions information has to be reported at individual level, for 15 counterparties per sector, subject to certain thresholds. Institutions are further asked to provide information in an accompanying explanatory note on actions the bank has taken in the past to finance the green transition.
    - Module 3: Bottom-up stress test projections. The methodological approaches for assessing the credit risks arising from transitional and physical risks, both in the short and in the long-term, as well as the market risks arising from short-term transitional risks, are described. Furthermore, a qualitative questionnaire is provided for the assessment of operational and reputational risks arising from these risks.
        - **Transition risk**. This stress test exercise assesses banks' short-term vulnerabilities under a baseline scenario and a three-year disorderly transition scenario by estimating the impact of the latter scenario on the level of provisions on the non-financial corporate and mortgage portfolios, as well as on the value of the market risk position. Also, for credit risk, longer-term strategies are assessed when faced with three different transition scenarios (orderly, disorderly and hot house) over a 30-year horizon. For the assessment of short-term vulnerabilities, the static balance sheet hypothesis is assumed, whereas for the long-term strategy, a dynamic balance is applied. The geography, the sector of activity for companies and, in the case of exposures secured by real estate, the energy performance certificate are considered as the relevant aggregation levels.
        - **Physical risk**. The assessment of physical risk will focus on two extreme weather events representing key climate risks in Europe: i) a severe drought and heatwave on the non-real estate secured portfolio and ii) a large flood on the real estate secured portfolio.
- **Participating entities**. All significant institutions will have to develop Modules 1 and 2, as well as the Module 3 starting point. The ECB will identify the set of institutions that have to conduct Module 3 projections.

3. Next steps

- The exercise will be conducted from **March 2022** to **July 2022**.

EUROPEAN CENTRAL BANK
EUROSYSTEM

13/12/2021
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. Later, in June 2021, the ECB launched a public consultation on the revised version of its Guide to fit and proper assessments.

In this context, the ECB has launched the definitive version of its **Guide to fit and proper assessments,** which does not includes relevant changes or additions with respect to the consultation document. This Guide introduce 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. The conclusions of the AML/CFT authorities will be sought and are considered to be key information in order to conclude on the suitability of the appointee.
    - 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.

BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY

22/10/2021
Policy Statement 23/21 on the identification of the nature, severity and duration of an economic downturn

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 **Policy Statement (PS) 23/21 which provides feedback to responses to 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. These indicators can be reported in absolute levels, or as rates of changes, allowing firms to use more than one transformation of the same indicator for identifying downturns.
- **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. An economic downturn can comprise one or more downturn periods, and these periods can be dismissed only if they are based on economic factors that are not relevant to the calibration segment under consideration.

3. Next steps

- The implementation date for the policy changes resulting from this PS will be **1 January 2022.**

BANK OF ENGLAND

17/12/2021
Stress testing the UK banking system: 2021 Solvency Stress Test

1. Context

Following the COVID-19 outbreak, the Bank of England (BoE) cancelled the 2020 concurrent stress test and instead undertook desktop analysis of the resilience of the UK banking sector to the unfolding stress. In January 2021, the la Prudential Regulation Authority (PRA) published the Key elements of 2021 stress test in the UK, as well as Guidance for participating banks to enable them to make their own estimates for the purposes of the 2021 stress test.

In this context, the BoE has published **the 2021 Solvency Stress Test (SST)** results reflecting the circumstances of the pandemic, which differs from the Annual cyclical scenario (ACS) stress test. This results shows the major UK banks are resilient to a severe path for the economy for the period 2021–2025.

2. Main points

- **Highly severe macroeconomic scenario**. The scenario incorporate paths for economic and financial market variables, including GDP, property prices and unemployment.
  - <u>GDP</u>. Between end-2020 and 2025, UK GDP falls by 9%, with a sharp dip at the beginning of 2021.
  - <u>Residential and property prices</u> fall by around 33% and <u>unemployment</u> rise by 5.6 percentage points to peak at 11.9%.

In comparison with other stress tests conducted, the macroeconomic scenario of the SST is more severe, however the pace of the recovery is faster. More broadly, the relative severity across the different aspects of the scenario is different to previous ACS exercises, reflecting the idiosyncratic nature of the shock related to the COVID-19 outbreak.

- **Robust capital position of participating banks**. At end-2020, participating banks had an aggregate Common Equity Tier 1 (CET1) capital ratio of 16.2% of risk-weighted assets and Tier 1 leverage ratio of 5.8% of total exposures.
- **Substantial reduction in bank's capital positions, mainly driven by a substantial** credit impairments alongside an increase in Risk Weight Assests (RWAs). At an aggregate level, the drawdowns on a no-transitional basis are slightly larger than on a transitional basis reflecting the effect of transitional relief.
  - <u>On a transitional IFRS 9 basis</u>:
    - **Aggregated CET1 capital ratio. Falls from 15,9% by the end-2020 to a low of 10.5% by the second year of the stress excluding the benefit of software assets, against a minimum benchmark requirement of 7.6%.**
    - **Aggregated CET1 leverage ratio. Falls by 1.0 percentage points to a low of 4.8%.**
  - <u>On a non-transitional basis</u>:
    - **The aggregated CET1 capital ratio. Drops to a low of 9.9% against a minimum benchmark requirement of 7.0%.**
    - **The aggregated CET1 leverage ratio. Drops to a low of 4.5% against a 3.5% benchmark requirement.**

  The UK banking sector remains above the indicative aggregate reference rates in all years of the stress.

3. Next steps

- **For 2022**, the Bank intends to revert to the ACS stress-testing framework.
- Further details of the 2022 ACS will be published **in 2022 Q1**.

20/12/2021
Draft Principles for Climate-Related Financial Risk Management for Large Banks

1. Context

The OCC published the Semiannual Risk Perspective in December 2021. In this report, the OCC shows their commitment in addressing ESG risk management, and confirms that they are working in the development of risk management frameworks to measure, monitor and control risk presented by climate change.

In this context, the OCC has published the **Draft Principles for Climate-Related Financial Risk Management for Large Banks**, which provide a high-level framework for the safe and sound management of exposures to climate-related financial risks. The principles will help bank management to incorporate climate-related financial risks into their risk management frameworks.

2. Principales aspectos

<u>**General Principles**</u>

- **Governance**. An effective risk governance framework is essential to a bank's safe and sound operation. A bank's board and management should demonstrate their proper understanding of climate-related financial risk exposures and their impact on the risk appetite to facilitate oversight.
- **Policies, Procedures and Limits**. Management should incorporate climate-related risks into policies, procedures, and limits to provide detailed guidance on the bank's approach to these risks in line with the strategy and risk appetite set by the board.
- **Strategic Planning**. The board and management should take into account climate-related financial risk exposures when determining a bank's strategy, risk appetite and financial, capital, and operational plans. They also should assess the potential impact of these risk exposures on the financial condition and the business objectives.
- **Risk Management**. As part of sound risk management, banks should develop processes to measure and monitor material climate-related financial risks and to inform management about the materiality of those risks. Material climate-related financial risk exposures should be clearly defined, aligned with the bank's risk appetite, and supported by appropriate metrics (e.g., risk limits and key risk indicators) and escalation processes. Boards and management should also incorporate climate-related risks into their internal control frameworks, including internal audit.
- **Data, Risk Management, and Reporting**. Management should incorporate climate-related financial risk information into the bank's internal reporting to facilitate timely and sound decision-making across the bank.
- **Scenario Analysis**. Management should develop and implement climate-related scenario analysis frameworks in a manner commensurate to the bank's size, complexity, business activity, and risk profile. These frameworks should include clearly defined objectives that reflect the bank's overall climate risk management strategies.

<u>Management of Risk Areas</u>

- **Credit Risk**. The board and management should consider climate-related financial risks as part of the underwriting and ongoing monitoring of portfolios. Effective credit risk management practices could include monitoring climate-related credit risks through sectoral, geographic, including credit risk concentrations stemming from physical and transition risks.
- **Liquidity Risk**. Consistent with sound oversight and liquidity risk management, the board and management should assess whether climate-related financial risks could affect liquidity buffers and, if so, incorporate those risks into their liquidity risk management and liquidity buffers.
- **Operational Risk**. The board and management should consider how climate-related financial risk exposures may adversely impact a bank's operations, control environment, and operational resilience.
- **Compliance Risk**. The board and management should consider how climate-related financial risks and risk mitigation measures affect the legal and regulatory landscape in which the bank operates.

3. Próximos pasos

- Interested parties may submit feedback on the draft principles through **February 14, 2022**.

BANCO DE ESPAÑA
Eurosistema

23/11/2021
Proyecto de Circular que modifica las Circulares sobre supervisión y solvencia y la Circular sobre transparencia y responsabilidad en la concesión de préstamos

1. Context

In 2012 the BdE published Circular 5/2012 on transparency of banking services and responsibility in the granting of loans. Subsequently, in 2014 it published Circular 2/2014 on the exercise of various regulatory options contained in the Capital Requirements Regulation (CRR). In addition, in 2016 it published Circular 2/2016 on supervision and solvency, which completes the adaptation of the Spanish legal system to the Capital Requirements Directive (CRD) and the CRR Regulation.

In this context, the BdE has launched the Public Hearing on the **Draft Circular amending Circulars 2/2016 and 2/2014, on supervision and solvency and the exercise of regulatory options, and Circular 5/2012, on transparency and responsibility in the granting of loans**, with the aim of completing the transposition of CRD V, as well as exercising the options and national discretions of CRR II and developing information obligations in revolving credits

2. Main points

- **Amendment of Circular 2/2016, to credit institutions, on supervision and solvency**. The draft introduces relevant amendments in the following areas:
  - Capital buffers for global systemically important institutions and buffer against systemic risks. It introduces capital requirements that cannot be covered by the capital intended to meet the combined capital buffer requirement. In addition, the classification of sub-categories based on the BCBS methodology on systemic importance is maintained. This classification reflects the buffer percentages to be applied to the amount of risk exposure. It has been retained rather than eliminated as in CRD V, in order to provide clarity and certainty by giving legal certainty to the process of setting the buffer rates. Finally, the minimum systemic risk buffer level of 1% is eliminated and the possibility of assigning a buffer rate only to subsets of exposures is introduced.
  - Internal organization. Three new rules have been introduced to establish the additional procedure for documentation, disclosure and reporting of loans to directors and related parties, which coexists with the current authorization regime contained in the Circular.
  - Capital self-assessment and the supervisory review process. The assessment of systemic risk has been eliminated, as it is not appropriate for the microprudential supervisor to assess this risk, nor to take it into account when quantifying the additional own funds requirement.
  - Risk treatment. The rule that dealt with developing the obligation for institutions to have systems in place to identify, assess and manage interest rate risk has been removed, as the content of the rule is contained in higher-ranking rules (Law 10/2014, on the regulation, supervision and solvency of credit institutions).
- **Amendment of Circular 2/2014, on prudential requirements for credit institutions and investment firms**. Aspects of the exercise of options and national discretions (OND) are modified. The updates are only carried out in order to reorganise the legislation and to include all the amendments to CRR II in the same Circular. These updates are as follows:
  - Removes two rules, one relating to exposures in relation to counterparty risk hedging and the other on liquidity outflows in products related to trade finance off-balance sheet items, providing more flexibility for institutions.
  - It includes five standards to exercise four new OND included in CRR II. The rules deal with the default status of the obligor; the calculation of the amount of stable funding required; the residual maturity of an asset; level 2B assets and significant equity indices; and finally exemptions for large exposures.
  - On transitional regulatory options, the amendment removes certain rules or sections that have become obsolete because their term has expired.
- **Amendment of Circular 5/2012, for credit institutions and payment service providers, on transparency of banking services and responsibility in the granting of loans**. The aim of the amendment is to develop certain information transparency obligations applicable to revolving credit, in the pre-contractual and post-contractual phase. Among the amendments, the pre-contractual information provided to the customer on consumer credit is extended; and the regulatory references on contractual and post-contractual information are updated.

3. Next steps

- Comments to this public hearing can be submitted until **9 December 2021**.

07/12/2021
Circular sobre modelos de estados reservados en materia de conducta de mercado y transparencia

1. Context

In 2015, the Government published the Royal Decree on the regulation, supervision and solvency of credit institutions, which empowers the BoS to require natural or legal persons subject to its supervision, with the form and periodicity to be determined, the statements and information it deems necessary to comply with the supervisory function of the standards of conduct, transparency and customer protection.

In this context, following the publication of the consultation document in March 2021, the BoS has published **the Circular on model confidential statements on market conduct, transparency and customer protection and on the register of complaints**, which introduces some clarifications to the draft and with the aim of establishing the content and frequency of the information to be submitted.

2. Main points

- **Templates and criteria for the preparation and presentation of reserved statements on matters of conduct**.
    - Recognition and valuation criteria. The accounting criteria, including the recognition and valuation rules, for the preparation of the reserved statements on matters of conduct shall be those applicable in accordance with the accounting regulations applicable to each entity.
    - Sectorization of balances according to holders. As a novelty with respect to the consultation document, a minimum sectorization scheme is included in the reserved states, which has become for resident and non-resident households and microenterprises.
    - Compliance and filing of confidential statements on conduct matters with the BoS. Institutions may not modify the established statement models, nor suppress any of their items, which must always appear, even if they have a null value.
    - States reserved in matters of conduct. Institutions must send the BoS the reserved statements, structured in three blocks differentiated by: i) type of banking products and services, including payment products and services marketed by the institutions; ii) fees and interest income; and iii) complaints filed with the institutions.
- **Development and internal control of information on behavioral issues**. All information on marketed products and banking services, including payment services, provided to their customers must be perfectly identified in the institutions' database, from which the information contained in the different statements on conduct, as well as in the register of complaints, will be clearly obtained. Institutions shall take the utmost diligence in the preparation of their reserved statements and. As a novelty with respect to the consultation document, the institutions will also take the utmost diligence in the mechanisms for communication to the BoS, in order to avoid subsequent rectifications.
- **Register of complaints available to the BoS**. Institutions must keep a register sufficient and adequate to collect all the complaints provided for in the Law on Financial System Reform Measures, submitted by households, Individuals, non-business activity and by households, individual entrepreneurs, received at any instance, with the data requested in the annex on the minimum information content of the Complaints Register, so that they can be made available to the BoS when required. As a novelty with respect to the consultation document, the period of availability of the data after the date of filing the claim is reduced from 10 to 6 years.

3. Next steps

- This circular shall **enter into force twenty days after its publication in the BOE**.

BANCO DE ESPAÑA
Eurosistema

28/12/2021
Circular sobre supervisión y solvencia de las entidades de crédito

1. Context

The Royal Decree-Law 22/2018 introduced into the Spanish legal system additional macroprudential tools to address potential vulnerabilities for the financial system, so that the financial supervisory authorities could have the necessary instruments to help mitigate potential shocks with a potential systemic impact. In addition, the Royal Decree 102/2019 includes the possibility that the BoS could adopt certain macroprudential tools: i) capital buffer requirements; ii) the establishment of limits to sector concentration; and iii) the establishment of conditions on the granting of loans and other operations. Subsequently, the Basel Committee on Banking Supervision (BCBS) published on November 2019 guiding principles for the operationalisation of a sectoral countercyclical capital buffer (SCCyB).

In this context, the BoS has published **Circular 5/2021 on the supervision and solvency of credit institutions**, which amends Circular 2/2016 with the aim of developing certain aspects of the macroprudential tools that current legislation places at the disposal of the BoS. Specifically, this Circular incorporates into the countercyclical buffer framework a large part of the BCBS guiding principles published in November 2019.

2. Main points

- **Scope of application**. The new chapters on sectoral concentration limits and other macro-prudential tools are applicable to credit institutions authorised in Spain and to branches in Spain of credit institutions headquartered in EU and non-EU Member States.
- **Countercyclical capital buffer.**
    - This Circular incorporates as a novelty the establishment of the percentage of the countercyclical capital buffer on one or several sectors, which represents a technical improvement of the countercyclical capital buffer by allowing its application both on all exposures and on some sectors, or even on both simultaneously. These sectors are:
        - **Non-financial corporations and individual entrepreneurs** (business activity) both carrying out an economic activity classified as "real estate development" or as "real estate activities", or other economic activity. In relation to individual entrepreneurs (business activity), only transactions in the name of the entrepreneurs will be collected when they are for the purpose of their business activity.
        - **Households that are recipients of housing credit**.
        - **Households, for financing not included in housing credit and excluding individual entrepreneurs**. Therefore, only transactions granted to individual entrepreneurs will be included when the institution is aware that they are predominantly used for personal consumption.
    - For the activation and determination of the countercyclical buffer on these sectors, a broad set of indicators is identified with the capacity to act as early warning indicators of sectoral imbalances in Spain, correlated with increases in systemic risk in the financial system. In particular, the following categories of indicators are considered:
        - **Sectoral credit volume indicators** (measures of credit growth, intensity and gaps).
        - **Asset price indicators** (sector-specific developments and measures of imbalances).
        - **Sectoral macro-financial imbalances indicators** (indebtedness, net wealth, net lending/borrowing, saving rate and consumption and investment gaps among others).
        - **Indicators on any other quantitative or qualitative information** that the BoS considers relevant.
    - Where indicators suggest cyclical sectoral imbalances that may have serious implications for the financial system and the real economy, the BoS shall, where appropriate, set the appropriate countercyclical buffer rate for the risk exposure to one or several sectors. This shall be between 0 % and 5 %, calibrated in steps or multiples of 0.25 percentage points.
- **Sectoral limits on the concentration of exposures**.
    - This includes setting a limit on concentration in a sector of economic activity. In this respect, the BoS will calculate the concentration of institutions in a sector of economic activity on the basis of the confidential financial information submitted to it by the institutions. A sector of economic activity includes, in addition to the sectors specified above, other financial corporations and credit institutions.
    - The BoS will periodically assess whether it is appropriate to set this limit to a sector of economic activity, in accordance with the indicators set out above. In addition, other elements (e.g. aggregate concentration or the weight of credit exposure in GDP) will also be taken into account.
    - Furthermore, the concentration limit will be the same for the target institutions and will be expressed as a value equivalent to a percentage of Common Equity Tier 1 capital. The limit will be applied in relation to one of the sectors of activity and will be published on the BoS's website.

- **Other macro-prudential tools**.
  - The setting of limits and conditions on the granting of loans and other mortgage and non-mortgage secured and unsecured transactions on residential real estate or on commercial real estate to households and non-financial corporations and individual entrepreneurs (business activity) is introduced.
  - In assessing whether or not to impose limits, account shall be taken of, inter alia:
    - The **debt, income and solvency indicators** of the borrowers and their evolution over time.
    - The **level of the indicators** (ratios) used by institutions to grant loans and other transactions (e.g. loan to value (LTV) for mortgage-backed transactions).
    - **Other indicators** considered relevant.
  - The limits and conditions that the BoS may impose in relation to the financial characteristics or other elements of transactions may be triggered individually, or jointly, and may be in force simultaneously with other macro-prudential instruments. The applicable limits include the following:
    - Limiting the **maturity of operations**.
    - Limiting the **grace periods of operations**.
    - Setting a **minimum repayment requirement** for the principal of the operation.

3. Next steps

- Circular comes into force **20 days after** its publication in the BOE.

BANCO DE ESPAÑA
Eurosistema

30/12/2021
Circular 6/2021 por la que se modifican la Circular 4/2017 y la Circular

1. Context

In December 2020, the European Commission (EC) published Regulation (EU) 2021/451 laying down implementing technical standards for the implementation of the Capital Requirements Regulation (CRR) and introducing changes to Finrep. In the same year, the European Banking Authority (EBA) published Guidelines on on loan origination and monitoring to which the BoS adheres. Finally, in January 2021 the EC published Regulation (EU 2021/25) amending Regulation (EC) 1126/2008 on the application of international accounting standards (IAS/IFRS). To reflect these updates, in June 2021 the BoS published a Draft Circular amending Circular 4/2017 to credit institutions on public and confidential financial reporting standards and model financial statements and Circular 4/2019 to credit financial institutions on public and confidential financial reporting standards and model financial statements.

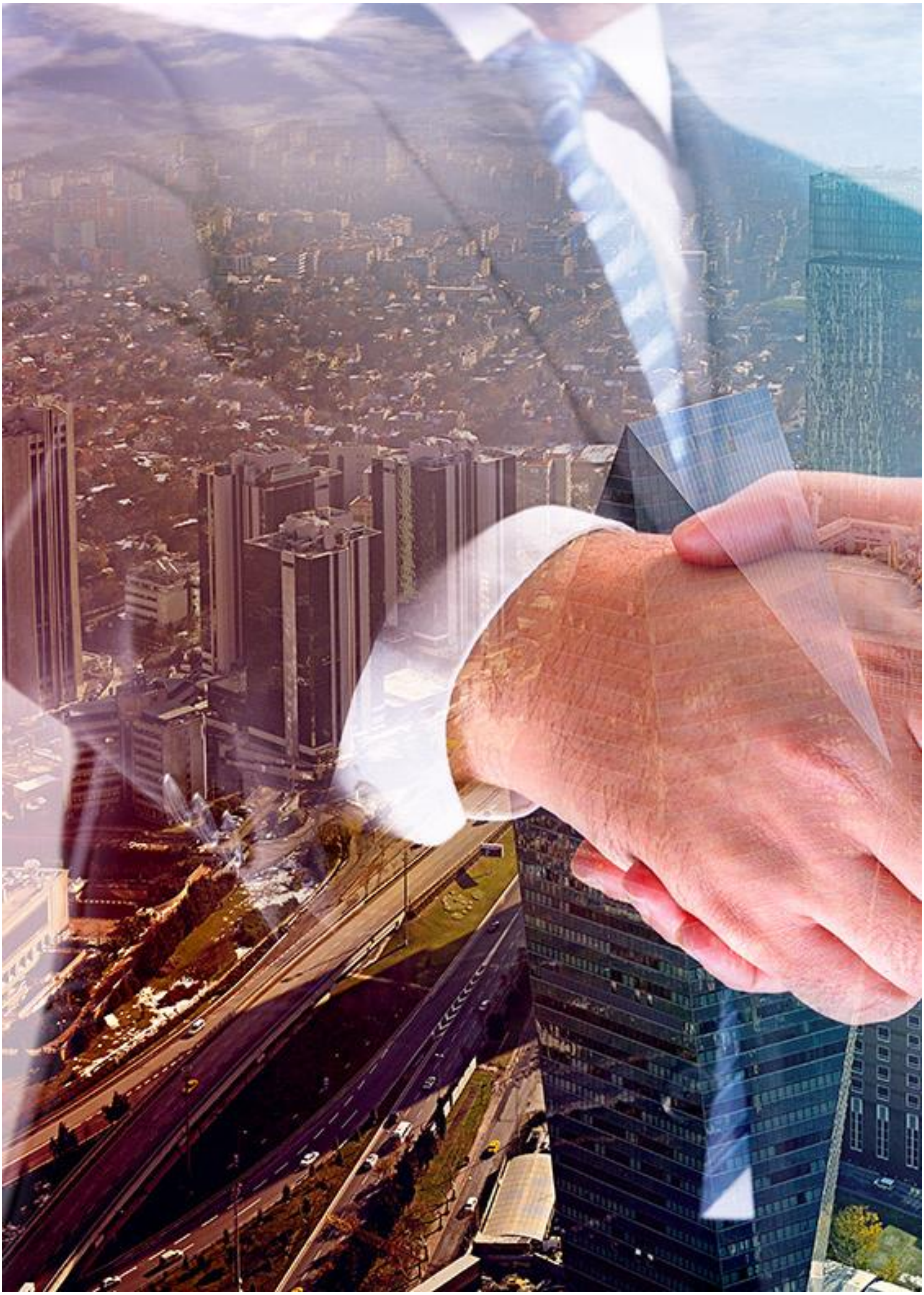
In this context, the BoS has published **Circular 6/2021 amending Circular 4/2017 and 4/2019**. The aim of this update is to preserve the convergence of Spanish accounting regulations for financial institutions with the International Financial Reporting Standards adopted by the EU, as well as to maintain alignment and avoid overlaps with other European standards and guidelines.

2. Main points

- **Updating of Circular 4/2017 to credit institutions on public and confidential financial reporting standards and financial statement formats. The main amendments refer to:**
    - Recognition, valuation and presentation criteria. The method of determining the gross carrying amount is modified for instruments at fair value through other comprehensive income following the changes made in Finrep.
    - The reserved individual statements. The standard relating to reserved individual statements is amended. Specifically, the following amendments are made:
        - Introduction of the necessary changes to include the simplified regime of requirements for sending confidential financial statements applicable to branches of foreign credit institutions operating in Spain whose head office is located in a Member State of the European Economic Area.
        - Amendment of the annex on individual reserved statements in order to introduce new data requirements to verify compliance with standards or to collect statistical information, as well as to make technical adjustments and corrections identified as necessary.
    - The reserved statements relating to the statistical data requirements of the Economic and Monetary Union.(EMU) The reserved statements that Spanish credit institutions and branches in Spain of Spanish credit institutions must send to the BoS are modified. These modifications will start to be applied for next year's data and are as follows:
        - Incorporation of new data requirements to improve the analysis of monetary and credit developments.
        - Introduction of modifications to some of the existing data requirements and reporting definitions to support better integration with other statistical datasets. The update involves the modification of some statements, the deletion of one and the addition of six new statements.
    - Benchmark interest rates. Exceptions regarding the accounting reflection of the changes required by the reform of the IBOR benchmark interest rate indices are introduced in: i) the basis for determining the contractual flows of a financial asset or liability; ii) the documentation of an accounting hedge; and iii) the basis for determining lease payments.
    - Credit risk. Annex 9 on credit risk analysis and hedging is amended, specifically with the following changes:
        - Elimination of points that overlap with the EBA Guidelines on lending and loan monitoring.
        - Adjustments to the criteria for reclassification out of the doubtful risk category of forborne exposures.
        - Modification of the tables with the percentages of the alternative solutions for the collective estimation of the coverage of credit risk loss and discount on the reference value of foreclosed assets or assets received in payment of debts.
- **Updating of Circular 4/2019 to financial credit institutions on public and confidential financial reporting standards and financial statement formats**, removing references that overlap with the EBA Guidelines on lending and loan monitoring.
- **Single transitional provision**. A transitional provision is introduced concerning transactions directly affected by the reform of the benchmark interest rate indices. Entities shall apply this transitional provision in their individual and consolidated annual accounts for the financial year 2021.

2. Main points

- This Circular will enter into force on the **day of its publication** in the BOE with the following specificities:
    - The new reserved financial statements regime for branches of foreign credit institutions operating in Spain whose head office is located in a Member State of the European Economic Area will apply for the first time for data as at **31 January 2022**.
    - The changes to the individual reserved financial statements will apply for the first time for data as at **31 January 2022** for monthly frequency statements, **31 March 2022** for quarterly frequency statements, **30 June 2022** for half-yearly frequency statements and **31 December 2022** for annual frequency statements.
    - The update of the EMU statistical data requirements will apply for the first time for the data of 31 January 2022 for the monthly frequency and **31 March 2022** for the quarterly frequency.
    - The changes to the criteria for reclassifying forborne exposures out of the doubtful risk category will apply from 31 December 2021 unless institutions may choose to apply them from **30 June 2021.**
    - The new tables with the alternative solutions for the collective estimation of credit risk loss allowances and the discounts on the reference value of foreclosed assets or assets received in payment of debts will apply from **30 June 2022.**



O-SIIs

(08/10/2021) PRA - PRA statement on freezing O-SII buffer rates for a further year

The Prudential Regulation Authority (PRA) has announced its intention to extend the decision to keep Other Systemically Important Institutions (O-SIIs) buffer rates at 2019 levels for another year with no new rates set until December 2023, with the aim of assisting firms in their capital planning.

CROWDFUNDING

(08/10/2021) EBA – Draft RTS on individual portfolio management of loans offered by crowdfunding service providers

The European Banking Authority (EBA) has published a 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. This final report incorporates minor changes with respect to the consultation document published in May 2021. Attached to this email is the alert generated on the consultation document.

STSS

(12/10/2021) ESMA - ESMA publishes final report for STS synthetic securitization notifications

The European Securities and Markets Authority (ESMA) has submitted to the European Commission (EC) its final report on the technical standards specifying the content and format of the simple, transparent and standardized (STS) notification for balance sheet securitizations. This report incorporates updates to the STS notification templates from the consultation document published in May 2021 and has been submitted to the European Commission (EC) for endorsement.

BASEL III

(14/10/2021) BIS - Progress report on adoption of the Basel regulatory framework

The Bank for International Settlements (BIS) has published a progress report setting out the status of jurisdictional adoption of Basel III standards as at end-September 2021. The report shows that over the past year member jurisdictions have made further progress in adopting the Basel III standards despite the disruptions resulting from Covid-19 and the required shift in regulatory and supervisory priorities.

NPL

(21/10/2021) PRA – PS24/21 | CP10/21 - Implementation of Basel standards: Non-performing loan securitisations

The Prudential Regulation Authority (PRA) has published the Policy Statement (PS) 24/21 on non-performing loan (NPL) securitisations. It provides feedback to the responses to the Consultation Paper published in June 2021 which set out the PRA's proposed rules in respect of the implementation of prudential standards agreed by the Basel Committee on Banking Supervision (BCBS) for NPL securitisations.

FTBR

(22/10/2021) EBA – EBA publishes final draft technical standards on the alternative standardised approach for market risk as part of its FRTB roadmap

The European Banking Authority (EBA) has published its final draft of the regulatory technical standards (RTS) on gross-jump-to-default (JTD) and risk add-on (RRAO). This final draft sets out the technical specifications for the implementation of these two elements of the alternative standardised approach for market risk. The final draft on JTD sets out the main inputs that own funds need to calculate default risk requirements. The final draft on RRAO specifies its scope and contains a list of instruments that bear residual risks and the list of risks that by their nature are not residual.

Other publications of interest

Capital, liquidity, leverage and NPL

REAL ESTATE

(27/10/2021) FDIC – Real Estate Lending Standards

The Federal Deposit Insurance Corporation (FDIC) has published a final rule amending the Real Estate Lending Standards to incorporate consideration of the community bank leverage ratio (CBLR) rule. The final rule is effective on November 26, 2021.

IRB

(05/11/2021) EBA – EBA publishes final 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 European Banking Authority (EBA) has published draft Regulatory Technical Standards specifying the types of factors to be considered for the assessment of appropriateness of risk weights and the conditions to be taken into account for the assessment of appropriateness of minimum loss given default (LGD) values for exposures secured by immovable property.

EMIR

(08/11/2021) BoE – The Bank of England's approach to tiering incoming central counterparties under EMIR Article 25

The Bank of England has issued a Consultation Paper and draft Statement of Policy setting out its proposed approach to 'tiering' incoming central counterparties (CCPs). Under the Bank's tiering proposals, incoming CCPs will be assessed thorough several indicators to establish if they might pose systemic risks to the UK.

DERIVATIVES MARKET

(15/11/2021) IOSCO – IOSCO consults on revised Principles for the regulation and supervision of commodity derivatives markets to reflect recent market developments

The International Organization of Securities Commissions (IOSCO) has announced a consultation on revising the Principles for the Regulation and Supervision of Commodity Derivatives Markets, which ensure that these markets continue to facilitate price formation and hedging while remaining free from manipulation and abusive practices. Comments can be made on or before 17 January 2021.

PENSION PLANS

(15/11/2021) MINECO – Proyecto de Circular de la DG de Seguros y Fondos de Pensiones relativa a las hipótesis técnicas a utilizar para el cálculo de las previsiones de pensión de las que se debe informar a los partícipes de los planes de pensiones de empleo

The Ministerio de Asuntos Económicos y Transformación Digital (MINECO) has published a public consultation prior to the Draft Circular on Insurance and Pension Funds regarding the technical assumptions to be used for the calculation of pension provisions. With the mentioned Circular, the aim is, firstly, to regulate the technical assumptions to be used for the calculation of pension provisions, about which each pension plan participant must be informed. Secondly, it is intended to ensure that such information allows each participant to understand the pension rights over time, the comparison between the different occupational pension plans, as well as to facilitate labor mobility.

COLLECTIVE INVESTMENT UNDERTAKINGS

(25/11/2021) EBA – EBA publishes final draft technical standards on how to calculate risk weighted exposure amounts for exposures towards collective investment undertakings

The European Banking Authority (EBA) has published the final draft Regulatory Technical Standards (RTS) on the calculation of risk-weighted exposure amounts of collective investment undertakings (CIUs) in line with the Capital Requirements Regulation (CRR). These RTS, contributes to the calculation of own funds requirements for the exposures in the form of units or shares in CIUs under the Standardised Approach for credit risk and clarifies the regulatory treatment for missing inputs when the underlying risk of derivatives is unknown and for the computation of the exposure value for counterparty credit risk.

Risk dashboard

(26/11/2021) ESMA – ESMA continues to see risk of market corrections amid elevated valuations

The European Securities and Markets Authority (ESMA) has published the second Risk Dashboard for 2021, covering the third quarter of the year. ESMA maintains risk levels unchanged, at a high level, as the market environment remains defined by very high uncertainty, continued elevated asset valuations with risk of price corrections and abrupt shifts in risk premia.

MREL Dashboard

(02/12/2021) SRB – MREL dashboard Q2.2021

The Single Resolution Board (SRB) has published its minimum requirement for own funds and eligible liabilities (MREL) dashboard covering the reporting period Q2.2021. In relation to the total risk exposure amount (TREA) stood at 26.04% broadly in line with the level registered in the previous quarter. Furthermore, the funding costs remained stable around pre-pandemic levels in the third quarter of 2021.

Crowdfunding services

(08/12/2021) EBA - EBA consults on draft technical standards setting requirements for crowdfunding service providers

The European Banking Authority (EBA) has launched a consultation on draft Regulatory Technical Standards (RTS) specifying the information that crowdfunding service providers shall provide to investors. The proposed requirements cover the method used for the calculation of credit scores and loan prices, the factors that the providers need to consider when carrying out a credit risk assessment and conducting a valuation of a loan, and the underlying policies and governance arrangements. The consultation runs until 8 March 2022.

Investment firms

(10/12/2021) EBA – Consultation paper on draft RTS on the specific liquidity measurement for investment firms/Consultation paper on draft Guidelines on liquidity requirements exemption for investment firms

The European Banking Authority (EBA) launched a public consultation on its draft Regulatory Technical Standards (RTS) on specific liquidity measurement requirements for investment firms and draft Guidelines on liquidity requirements exemptions for small and non-interconnected investment firms. The draft RTS and draft Guidelines aim to ensure consistent supervisory practices with regards to the application of liquidity requirements for investment firms across all EU Member States. The consultations run until 10 March 2022.

Money Market funds

(15/12/2021) SEC – Money Market Fund Reforms

The Securities and Exchange Commission (SEC) has published its proposing amendments to certain rules govern money market funds under the Investment Company Act of 1940. The proposed amendments are designed to improve the resilience and transparency of money market funds by removing the liquidity fee and redemption gate provisions in the existing rule, which could encourage funds to more effectively use their existing liquidity reserves in times of stress.

Other publications of interest

Supervision

Money market fund

(11/10/2021) FSB – FSB publishes final report with policy proposals to enhance money market fund resilience

The Financial Stability Board (FSB) has published the final report containing proposals to improve the resilience of the money market fund (MMF). These proposals aim to identify systemic risks and minimize the need for interventions by the European Central Bank (ECB) in the future.

Stress-test

(14/10/2021) ECB - Macroprudential stress test of the euro area banking system amid the coronavirus (COVID-19) pandemic

The European Central Bank (ECB) has published the Macroprudential stress test of the euro area banking system for 2021-2023, which aims to provide insights into the resilience of the European banking sector following the pandemic of COVID-19. This stress test complements the EU-wide stress test run by the EBA because it incorporates the phasing-out of the pandemic mitigation policies, among others.

Supervision plan

(15/10/2021) OCC – OCC Releases Bank Supervision Operating Plan for Fiscal Year 2022

The Office of the Comptroller of the Currency (OCC) has released its fiscal year (FY) 2022 bank supervision operating plan, which provides the basis for policy initiatives and supervisory strategies applied to individual national banks, federal savings associations, federal branches, federal agencies and technology service providers.

Stress -Test

(19/10/2021) BoE – Bank of England launches first public CCP supervisory stress test

The Bank of England (BoE) has launched its supervisory stress test (SST) of UK central counterparties (CCPs), which will be conducted in 2021-22 and will cover the clearing services of all UK CCPs. The supervisory stress test will explore credit and liquidity resilience. The credit component will test the sufficiency of CCPs' resources to withstand a combination of market stress scenarios and clearing member defaults. The liquidity component will test the ability of CCPs to service all relevant cash requirements.

Asset managers

(02/11/2021) IOSCO – Setting regulatory and supervisory expectations for asset managers is fundamental to address greenwashing concerns

The International Organization of Securities Commissions (IOSCO) has published a report with recommendations to asset managers in the asset management industry. The report covers five areas: i) asset manager practices, policies, procedures and disclosure; ii) product disclosure; iii) supervision and enforcement; iv) terminology; and v) financial and investor education.

EMIR

(04/11/2021) EBA - EBA consults on draft technical standards on Initial Margin Model Validation under EMIR

The European Banking Authority (EBA) has launched a public consultation on its draft Regulatory Technical Standards (RTS) on Initial Margin Model Validation (IMMV) under the European Markets Infrastructure Regulation (EMIR). The consultation paper sets out the supervisory procedures for initial and ongoing validation of IMMV, which will be used to determine the level of margin requirements for uncleared over the counter (OTC) derivatives. Comments to this consultation can be sent before 4 February 2022.

G-SIB

(09/11/2021) BIS – G-SIB assessment methodology review process - technical amendment finalization

The Basel Committee on Banking Supervision has finalised a technical amendment to the Basel Framework which relates to the process used by the Committee to review the G-SIB assessment methodology. The Committee has replaced the prior three year review cycle with a process of ongoing monitoring and review. This will include monitoring: (i) recent developments in techniques or new indicators that can be used for the assessment of systemic risk; (ii) emerging evidence on the effectiveness of the G-SIB regime; and (iii) structural changes that could impact the effectiveness of the regime.

ESEP

(12/11/2021) EBA – The EBA sets examination programme for prudential supervisors for 2022

The European Banking Authority (EBA) has published the European Supervisory Examination Program (ESEP) for 2022, which identifies key topics for supervisory attention across Europe, with the aim of informing prudential supervisors' planning processes and shaping their supervisory practices. Among the topics that merit European attention, it is included: i) the impact of the COVID-19 pandemic on asset quality and adequate provisioning; ii) environmental, social and governance (ESG) risk; iii) and anti-money laundering and combating the financing of terrorism (AML/CFT).

Securitisation transactions

(15/11/2021) ECB – Public consultation on the draft Guide on the notification of securitisation transactions

The European Central Bank (ECB) has submitted for public consultation draft guidance on the reporting of securitization transactions. This Guide sets out the notification practices that significant institutions are advised to follow in order to provide the ECB with information needed for the supervision of compliance with Securitisation Regulation. The public consultation period will be open until January 5, 2022.

SREP

(18/11/2021) EBA/ESMA – Consultation paper on Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP)

The European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA) have launched a public consultation on their Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP) of investment firms. The draft joint SREP Guidelines set out the process and criteria for the assessment of the main SREP elements such as: i) business model; ii) governance arrangements and firm-wide controls; iii) risks to capital and capital adequacy; and iv) liquidity risk and liquidity adequacy.

Insurance market

(01/12/2021) IAIS – Global Insurance Market Report (GIMAR) 2021

The International Association of Insurance Supervisors (IAIS) has published the 2021 Global Insurance Market Report (GIMAR).The GIMAR reports on the outcome of the 2021 Global Monitoring Exercise (GME), the IAIS' risk assessment framework to monitor key risks and trends and to detect the potential build-up of systemic risk in the global insurance sector. This report also provides an update on the outcome of the Covid-19 targeted assessment based on year-end 2020 data.

Stress -test

(16/12/2021) EIOPA – EIOPA insurance stress test shows industry resilience but also reliance on transitional measures

The European Insurance and Occupational Pensions Authority (EIOPA) has published the results of its 2021 Insurance Stress Test. Despite the grave economic and financial implications of the COVID-19 pandemic, the European insurance industry entered the stress test exercise with a strong level of capitalisation – evidenced by a solvency ratio of 217.9% at the end of 2020. This robust buffer in the solvency ratio allowed participants absorb the shock of the adverse scenario. EIOPA and the National Competent Authorities will analyse the results further to gain a deeper understanding of the risks and vulnerabilities of the sector.

Other publications of interest

Recovery and resolution

EREP

(12/11/2021) EBA – The EBA sets first examination programme for resolution authorities

The European Banking Authority (EBA) has published a European Resolution Examination Program (EREP) on key issues for resolution authorities across the European Union to address, with the aim of proactively driving convergence of resolution practices by selecting issues that merit European attention. Resolution authorities are expected to consider key issues when developing their priorities for 2022 such as, among others, MREL deficits, or the development of management information systems for valuation in resolution.

Resolution

(18/11/2021) ESMA – Consultation on CCP Resolution Regime

The European Securities and Markets Authority (ESMA) has launched six public consultations to seek stakeholders' views on how to implement its mandates for the resolution of central counterparties (CCPs). The consultation contains proposals on: (i) resolution colleges; (ii) the valuation of assets and liabilities of CCPs in the event of resolution; (iii) safeguards for clients and indirect clients; and (iv) the content of resolution plans.

Financial crisis management

(30/11/2021) FSB – FSB publishes report on good practices for Crisis Management Groups

The Financial Stability Board (FSB) has published a report on good practices for Crisis Management Groups (CMGs). The report sets out good practices that have helped CMGs to enhance preparedness for the management and resolution of a cross-border financial crisis affecting a Global Systemically Important Bank (G-SIB) consistent with the FSB Key Attributes of Effective Resolution Regimes for Financial Institutions.

Resolution

(01/12/2021) SRB – SRB publishes solvent wind-down guidance

The Single Resolution Board (SRB) has published guidance on solvent wind-down (SWD) of derivatives and trading books in resolution, in line with its Expectations for Banks document, published in April 2020. The guidance sets out the scope and minimum expectations for SWD planning and potential execution, with the main objectives to adequately prepare, develop and maintain banks’ capabilities for the planning of a SWD in resolution.

Corporative government

(09/10/2021) CNMV – Nueva circular por la que se modifican los modelos de los informes anuales de gobierno corporativo y de remuneraciones de los consejeros de las sociedades cotizadas

The National Securities Market Commission (CNMV) has published a new directive introducing amendments to both the annual report on the remuneration of directors of listed companies (e.g. the need to report on any deviations from the procedure for applying the remuneration policy and on any temporary exceptions that have been applied) and the corporate governance report (e.g., the need to report on the shares with double voting rights for loyalty; information is requested on the positions held by directors in other entities, whether listed or not, and on other remunerated activities of the directors).

Investment firms

(22/11/2021) EBA – EBA publishes its final revised Guidelines on internal governance for investment firms under the Investment Firms Directive / EBA publishes its final revised Guidelines on remuneration for investment firms under the Investment Firms Directive

The European Banking Authority (EBA) has published revised guidelines on internal governance for investment firms subject to the Investment Firms Directive (IFD) aiming at ensuring that investment firms have a clear organisational structure, effectively manage their risks and have adequate internal control mechanisms in place. Furthermore, the EBA has published revised guidelines on remuneration for investment firms subject to the IFD, aiming at ensuring an alignment of the variable remuneration of identified staff with the risk profile of the investment firm and the assets it manages, and the gender neutrality.

Integrated thinking

(06/12/2021) SASB – The Value Reporting Foundation Publishes Integrated Thinking Principles and Updated SASB Standards for Three Industries

The Sustainability Accounting Standards Board (SASB) has published new Integrated Thinking Principles, which provide a structured approach to considering how to create the right environment within an organization. SASB's prototype Integrated Thinking Principles are designed to be integrated into an organization's business model and applied across key activities overseen by the board and the senior leadership team. It has also published updates to the Asset Management & Custody Activities, Metals and Mining and Coal Operations Industry Standards following a process that included a market consultation.

Staff remuneration

(09/12/2021) EBA - EBA report highlights shortcomings in the application of its Guidelines on the remuneration of sales staff

The European Banking Authority (EBA) has published a Report on the application of its Guidelines on the remuneration of sales staff in force since 2016. The EBA assessed how a sample of 70 financial institutions from 12 EU Member States are applying the Guidelines on the remuneration of sales staff. The EBA identified 17 distinct good practices which are considered as compliant with the Guidelines.

AML/CFT

(10/12/2021) EBA – EBA consults on new remote customer onboarding guidelines

The European Banking Authority (EBA) has launched a public consultation on its draft Guidelines on the use of remote customer onboarding solutions. These Guidelines set out a common understanding by competent authorities of the steps financial sector operators should take to ensure safe and effective practices in line with applicable anti-money laundering and countering the financing of terrorism (AML/CFT) legislation and the EU's data protection framework. Once adopted, these Guidelines will apply to all financial sector operators that are within the scope of the Anti-money Laundering Directive (AMLD). This consultation runs until 10 March 2022.

Other publications of interest

Reporting and disclosure

IORPs

(07/10/2021) EIOPA – Opinion on the supervisory reporting of costs and charges of IORPs / Opinion on the supervision of risk assessment by IORPs providing DC schemes

The European Insurance and Occupational Pensions Authority (EIOPA) has published two Opinions on the supervisory reporting of costs and charges by Institutions for Occupational Retirement Provisions (IORPs) and the risk assessment of IORPs that provide defined contribution (DC) schemes. The first one, provides a classification of costs to be reported to national supervisors and introduces a practical guidance for supervisors and IORPs. The second, fosters consistent supervisory practices by providing guidance on risk management.

Pillar III

(09/10/2021) EBA – Final report on draft ITS on IRRBB disclosure

The European Banking Authority (EBA) has published the 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. This final report incorporates minor changes with respect to the consultation document published in May 2021. Attached to this email is the alert generated on the consultation document.

CLIMATE-RELATED FINANCIAL DISCLOSURES

(14/10/2021) FSB - 2021 Status Report: Task Force on Climate-related Financial Disclosures

The Financial Stability Board (FSB) has published the Task Force on Climate-related Financial Disclosures (TCFD) Report stating that climate-related financial disclosures aligned with TCFD recommendations have accelerated in the last year, growing by nine percentage points in 2020, in line with the global momentum around climate-related disclosures. In addition, more than 50% of all companies disclosed their climate-related risks and opportunities.

Investment firms

(19/10/2021) EBA – EBA publishes final draft regulatory technical standards on disclosure of investment policy by investment firms

The European Banking Authority (EBA) has published final draft regulatory technical standards (RTS) on disclosure of investment firms' investment policy. The draft RTS put forward comparable disclosures that should help stakeholders understand investment firms' influence over the companies in which they have voting rights and the impact of investment firms' policies on aspects such as the governance or management of those companies.

Taxonomy product disclosure

(22/10/2021) ESAs – ESAs propose new rules for taxonomy-related product disclosures

The European Supervisory Authorities (ESAs) delivered to the EC their Final Report with draft Regulatory Technical Standards (RTS) regarding taxonomy-related sustainability disclosures with the aim of modifying the RTS on ESG risk disclosure standards published in February, adapting them to the new features introduced by the SFDR taxonomy regulation. The report contains proposals for products under Articles 5 and 6 of the Taxonomy Regulation and for pre-contractual and periodic disclosures.

Sustainability disclosure requirements

(03/11/2021) FCA - DP21/4: Sustainability Disclosure Requirements (SDR) and investment labels

The Financial Conduct Authority (FCA) has published the Discussion Paper 21/4 on Sustainability Disclosure Requirements (SDR) and investment labels with the aim of seeking initial views on new sustainability disclosure requirements for asset managers and FCA-regulated asset owners, as well as a new classification and labelling system for sustainable investment products. Comments to this paper can be sent before 7 January 2022.

Sovereign exposures

(11/11/2021) BCBS – Voluntary disclosure of sovereign exposures

The Basel Committee on Banking Supervision (BCBS) has published these voluntary disclosure standards for sovereign exposures, which comprise three templates for banks to use when disclosing their sovereign exposures and risk-weighted assets by: i) jurisdictional breakdown; ii) currency breakdown; and iii) according to the accounting classification of the exposures.

Market risk

(11/11/2021) BCBS – Revisions to market risk disclosure requirements

The Basel Committee on Banking Supervision (BCBS) has published the Revisions to market risk disclosure requirements, which include a number of adjustments to reflect the revised market risk framework introduced in Minimum capital requirements for market risk in January 2019. The revised standard introduced among others changes: i) a "traffic light" approach for capital requirements as a consequence of the outcome of the profit and loss attribution test for banks using the internal models approach, and ii) the simplified standardized approach as an alternative way of calculating capital requirements for market risk. The revised disclosure standards have been updated to reflect these and other changes in the standards.

EMIR

(25/11/2021) FCA/BoE – Changes to reporting requirements, procedures for data quality and registration of Trade Repositories under UK EMIR

The Financial Conduct Authority (FCA) and Bank of England (BoE) have launched a joint consultation on changes to reporting requirements, procedures for data quality and registration of Trade Repositories under UK EMIR. The proposals aim to align the UK derivatives reporting framework with international guidance from the Committee on Payments and Market Infrastructures and International Organization of Securities Commissions (CPMI-IOSCO) to ensure a more globally consistent data set.

Supplier finance

(26/11/2021) IFRS – Proposed amendments to IAS 7 and IFRS 7

The International Accounting Standards Board (IASB) has today published for public comment proposed changes in disclosure requirements to enhance the transparency of supplier finance arrangements and their effects on a company's liabilities and cash flows. Comments can be sent before 28 March 2022.

Sustainable finance

(26/11/2021) EC – Letter from the European Commission to the ESAs on the application of Regulation (EU) 2019/2088

The European Commission (EC) has published a letter to the European Parliament (EP) and the Council to inform that the implementation of the Regulatory Technical Standards (RTS) of the sustainability-related disclosures in the financial services Regulation (SFDR) is delayed until January 1, 2023. This adds a six-month extension to the date envisaged by the EC in its last letter.

CRA

(03/12/2021) IAIS – FDIC Issues List of Banks Examined for CRA Compliance

The Federal Deposit Insurance Corporation (FDIC) has issued its list of state nonmember banks recently evaluated for compliance with the Community Reinvestment Act (CRA), which covers the FDIC evaluation ratings it assigned to institutions in September 2021. As part of the Financial Institutions Reform, Recovery and Enforcement Act, Congress mandated the disclosure of a rating of each Credit Bank to undergo a CRA examination.

CET1 capital insruments

(08/12/2021) EBA – EBA updates on monitoring of CET1 capital instruments

The European Banking Authority (EBA) has published an updated list of Common Equity Tier 1 (CET1) instruments of EU institutions. This list is accompanied by an updated CET1 Report, which includes information on the underlying objectives of the monitoring as well as on the consequences of including or excluding instruments in or from the CET1 list.

IFRS

(15/12/2021) ESMA – ESMA publishes report on expected credit loss disclosure of banks

The European Securities and Markets Authority (ESMA) has published its Report on the application of IFRS 7 Financial Instruments: Disclosures (IFRS 7) and IFRS 9 Financial Instruments (impairment requirements) regarding banks' expected credit losses (ECL). The report provides recommendations to issuers on how to improve the application of the relevant requirements and issuers, their auditors and committees are expected to consider the findings of the Report when preparing and auditing financial statements.

Other publications of interest

Reporting and disclosure

Disclosure of information

(27/12/2021) EC – Reglamento Delegado (UE) 2021/2268 de la Comisión de 6 de septiembre de 2021 por el que se modifican las normas técnicas de regulación establecidas en el Reglamento Delegado (UE) 2017/653

The European Commission (EC) has published a Delegated Regulation amending on the one hand the Delegated Regulation 2017/653 as regards: i) the underpinning methodology and presentation of performance scenarios; ii) the presentation of costs and the methodology for the calculation of summary cost indicators; iii) the presentation and content of information on past performance and the presentation of costs by packaged retail and insurance-based investment products (PRIIPs) offering a range of options for investment. On the other side, the transitional arrangement for PRIIP manufacturers offering units of funds referred to in Article 32 of Regulation (EU) No 1286/2014 has been aligned as underlying investment options with the prolonged transitional arrangement laid down in that Article.

Disclosure of information

(27/12/2021) EC – Reglamento Delegado (UE) 2021/2268 de la Comisión de 6 de septiembre de 2021 por el que se modifican las normas técnicas de regulación establecidas en el Reglamento Delegado (UE) 2017/653

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Other publications of interest

Compliance

Funeral plans

(05/11/2021) PRA–- Regulation of funeral plans: Feedback to CP21/20 and final rules

The Prudential Regulation Authority (PRA) has published consultation paper 21/20 with feedback and the final rules on funeral plans This rules ensure, among others, that: i) firms sell products fairly; ii) firms are well-run and have high conduct standards; and iii) consumers have time and all the information they need to make better informed decisions.

Conduct

(30/11/2021) FCA – PS21/20 on changes to UK MIFID's conduct and organisational requirements

The Financial Conduct Authority (FCA) has published Policy Statement 21/20 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.

Consumer duty

(07/12/2021) FCA – CP21/36: A new Consumer Duty: feedback to CP21/13 and further consultation

The Financial Conduct Authority (FCA) has for the second time launched a new consultation on its proposals to set a higher level of consumer protection in retail financial markets, where firms compete in the interests of consumers. The aim of the consultation is also to drive a financial services system in which firms can thrive and consumers can make informed choices about financial products and services.

Climate risk impact

(28/10/2021) PRA – Adaptation Report 2021 - Climate-related financial risk management and the role of capital requirements

The Prudential Regulation Authority (PRA) has published a climate change adaptation report which examines the risks posed by climate change to PRA regulated firms; the progress they have made in their management of these risks; what the PRA's response to these risks has been; and the PRA's supervisory strategy from 2022.

Climate change reports

(02/11/2021) MINECO – Real Decreto de desarrollo del artículo 32 de la Ley 7/2021, de 20 de mayo, de cambio climático y transición energética

The Ministry of Economic Affairs and Digital Transformation (MINECO) has launched a public consultation to gather comments to help specify the content of the reports provided for in Article 32 of Law 7/2021 on climate change and energy transition. The main objectives are: i) to specify the content of the climate change and energy transition reports; ii) to establish a regulatory framework that takes into account the specificities of climate risks; iii) to generate a financial and business reporting framework. Comments can be sent before 15 November.

FCA ESG requirements

(03/11/2021) FCA - A strategy for positive change: our ESG priorities

The Financial Conduct Authority (FCA) has published the environmental, social and governance (ESG) strategy which sets out the priorities in this aspect and the actions that the FCA expects to take to deliver these. The aim of the strategy is to support the financial sector in driving positive change, including the transition to net zero.

ESG risks

(22/11/2021) ECB – Banks must accelerate efforts to tackle climate risks, ECB supervisory assessment shows

The European Central Bank (ECB) has published its first large-scale assessment of how European banks are adjusting their practices to manage climate and environmental (C&E) risks, in line with the expectations set out in the November 2020 ECB Guide on C&E risks. It concludes that banks have taken the first steps to incorporate climate-related risks, but none are close to meeting all supervisory expectations.

EIOPA ESG priorities

(08/12/2021) EIOPA – Sustainable Finance Activities 2022-2024

The European Insurance and Occupational Pensions Authority (EIOPA) publishes its sustainability activities for 2022-2024 setting out its priorities for addressing sustainability risk, in pursuit of a more sustainable economy. While the focus remains on climate-related initiatives, other elements of environmental, social and governance (ESG) risks will merit greater attention, with an increasing focus on social aspects. The key areas of activity are based on EIOPA's deliverables on sustainable finance since 2018, and are reflected in the EU Commission's priorities included in the Strategy for Financing the Transition to a Sustainable Economy and the Climate Adaptation Strategy, as well as in recent regulatory initiatives.

ESG risk and solvency assesment

(10/12/2021) EIOPA – EIOPA consults on the application guidance on climate change risk scenarios in the ORSA

The European Insurance and Occupational Pension Authority (EIOPA) launched a consultation on the application guidance on running climate change materiality assessment and using climate change scenarios in the Own Risk and Solvency Assessment (ORSA). The application guidance provides a detailed and practical basis on how to implement sustainable finance ambitions in practice. Concrete case studies included in the consultation should also contribute to lowering implementation costs for insurance undertakings, in particular small and mid-sized ones, and improve the comparability of reported information.

Other publications of interest

Climate change

Enviromental footprint

(16/12/2021) EC – Recommendation on the use of Environmental Footprint methods

The European Commission (EC) has issued a Recommendation on the use of Environmental Footprint methods in relevant policies and systems related to the measurement and/or communication of the life cycle environmental performance of all types of products, both goods and services, and organisations. It is addressed to Member States and private and public organisations that measure or intend to measure and communicate the life cycle environmental performance of their product or organisation to any EU stakeholder. This recommendation does not have the status of applicable legislation; however, EU legislation or policies may refer to it as a method for calculating the life cycle environmental performance of products or organisations.

Achievement of environmental targets

(28/12/2021) MITECO – Guía para el diseño y desarrollo de actuaciones acordes con el principio de no causar un perjuicio significativo al medio ambiente

The Ministerio para la Transición Ecológica y el Reto Demográfico (MITECO) has submitted a Guide with recommendations to adapt both the design and the development of the actions of the National Plan for Recovery, Transformation and Resilience (PRTR), to the do no significant harm (DNSH) principle of the 2020/852 Taxonomy Regulation. Given that the EC is the competent body to show its final conformity with the actions, the content of the Guide is indicative and non-binding.

Funding for digitalization and connectivity

(05/10/2021) MINECO - El Gobierno aprueba la distribución de 500 millones de euros a las CCAA para proyectos de digitalización y conectividad en el marco del Plan de Recuperación

The Council of Ministers of the Ministry of Economic Affairs and Digital Transformation (MINECO) has authorised the proposals for the distribution of 500 million euros earmarked for various digitalisation and connectivity projects for the Autonomous Communities within the framework of the Recovery, Transformation and Resilience Plan. With this, the Autonomous Communities will have 360 million euros to promote digital connectivity in reference centres and 140 million euros to promote transversal digital skills among citizens.

Ethics in technology

(06/10/2021) EP - European Parliament resolution of 20 October 2020 with recommendations to the Commission on a framework of ethical aspects of artificial intelligence, robotics and related technologies (2020/2012(INL))

The European Parliament (EP) has adopted a Resolution urging the EC to draw up by next year a legal framework developing ethical principles and legal obligations linked to the use in the EU of artificial intelligence, robotics or other associated technologies. This regulation involves addressing environmental and climate challenges, as well as respect for fundamental rights.

Green and digital transition

(06/10/2021) EC - State aid: Commission invites comments on draft proposal to further facilitate implementation of aid measures promoting the green and digital transition

The European Commission (EC) has invited Member States and any interested parties to comment on proposed amendments to the General Block Exemption Regulation (GBER) with the aim of reflecting changes to the State Aid Guidelines under review and facilitating the EU's green and digital transition. This consultation period will be open until 8 December 2021.

Green algorithms

(15/10/2021) MINECO – El Gobierno lanza el Programa Nacional de Algoritmos Verdes

The Ministerio de Asuntos Económicos y Transformación Digital (MINECO) has launched an expression of interest to promote the National Green Algorithms Programme. The consultation aims to define the areas of knowledge and challenges needed to foster the development of green artificial intelligence (AI) by design and sustainable environment, more specifically, it seeks to provide transparency to the public-private collaboration process, and to identify proposals and evaluate them in order to enrich the National Green Algorithms Programme.

Cyber risks

(15/10/2021) EIOPA – Cyber risks: what is the impact on the insurance industry?

The European Insurance and Occupational Pensions Authority (EIOPA) has published an article analyzing a study on Covid-19 and cyber risk. The study has revealed that the financial sector has experienced the highest number of Covid-19-related cyber incidents after the healthcare sector, with payment institutions, insurers and credit unions being the most affected

Artificial Intelligence

(16/10/2021) MinTIC - OCDE incluye iniciativa del Ministerio TIC al Observatorio de Políticas de Inteligencia Artificial

The Organization for Economic Cooperation and Development (OECD) has included within the Artificial Intelligence Policy Observatory (OECD.AI), the initiative of the Ministry of ICT (MinTic), Data Sandbox. Through this initiative, it seeks to promote the development of artificial intelligence through the promotion of different pilot projects in Analytics and Big Data.

(19/10/2021) FSB - FSB calls for greater convergence in cyber incident reporting

The Financial Stability Board (FSB) has published a report on existing approaches to cybercrime reporting and next steps for greater convergence. The report highlights that a harmonization of regulations related to cyber incidents would serve to promote financial stability. The FSB notes three ways to achieve greater convergence in Cyber incident reporting, which are: i) developing best practices; ii) identifying common types of information to be shared; and iii) creating common terminologies for cyber incident reporting.

Other publications of interest

Technology

ATIFICIAL INTELLIGENCE

(26/10/2021) MINECO – El Gobierno impulsa la creación del primer ecosistema de computación cuántica del sur de Europa

The Ministerio de Asuntos Económicos y Transformación Digital (MINECO) has promoted the development of a Southern European quantum computer for the development of Artificial Intelligence, based on a public-private cooperation model, strengthening technological and industrial development in Spain. To this end, the Council of Ministers has approved the award of a grant of 22 million euros in line with the strategy of the Recovery, Transformation and Resilience Plan and the National Artificial Intelligence Strategy.

(28/10/2021) BOE – Real Decreto 857/2021, de 5 de octubre, por el que se regula la concesión directa de una subvención al Instituto Universitario Europeo para el desarrollo de las actividades de la Cátedra sobre Inteligencia Artificial y Democracia, en el marco del Plan de Recuperación, Transformación y Resiliencia

The Ministerio de Asuntos Económicos y Transformación Digital (MINECO) has published Royal Decree 857/2021, which regulates the granting of subsidies for the development of artificial intelligence activities. This Royal Decree is part of the evaluation of Spain's recovery and resilience plan, and contributes to digital transformation and knowledge creation in the field of e-government, as determined in Component 16 of the National Recovery, Transformation and Resilience Plan.

CYBERSECURITY

(29/10/2021) EC – Commissions strengthens cybersecurity of wireless devices and products

The European Commission (EC) has taken action to improve the cybersecurity of wireless devices available on the European market, thorough the publication of the delegated act to the Radio Equipment Directive which aims to make sure that all wireless devices are safe before being sold on the EU market.

NEURO-TECHNOLOGY

(29/10/2021) MINECO – El Gobierno impulsa SpainNeurotech, un ecosistema de innovación de neuro-tecnología en España

The Ministry of Economic Affairs and Digital Transformation (MINECO) has announced the launch of a new Expression of Interest to identify proposals on the application of Artificial Intelligence in neuro-technology. Among its objectives are the application of AI in neuro-technology, fostering research, or generating and retaining talent, respecting the so-called neuro-rights, such as those defended in the Charter of Digital Rights. These proposals will contribute to creating an innovation ecosystem, SpainNeurotech.

DATA MANAGEMENT

(05/11/2021) MinTIC – Analític4, la red colombiana de supercomputación que acompañará a la industria y al Gobierno para generar soluciones basadas en análisis de datos

The Ministry of Information Technologies and Communications of Colombia (MinTIC) and the Centre for Technological Development (BIOS) designed Analític4, the supercomputing network focused on supporting companies and the government sector in strengthening their operational processes through solutions based on data analysis and processing that increase competitiveness and sophisticate products and services.

MACHINE LEARNING

(11/11/2021) EBA – EBA consults on machine learning for internal ratings-based models

The European Banking Authority (EBA) has published a discussion paper on machine learning used in the context of internal ratings-based (IRB) models to calculate regulatory capital for credit risk. The aim of the discussion paper is to set supervisory expectations on how new sophisticated machine learning models can coexist with and adhere to the Capital Requirements Regulation (CRR) when used in the context of IRB models. The discussion paper seeks stakeholders' feedback on many practical aspects related to the use of machine learning in the context of IRB with the aim of providing clarity on supervisory expectations on their use.

ARTIFICIAL INTELLIGENCE

(12/11/2021) MINECO - Manifestaciones de interés para la identificación de propuestas para el impulso de la neurotecnología basada en Inteligencia Artificial en España

The Ministerio de Asuntos Económicos y Transformación Digital (MINECO) has launched a call for proposals for possible actions and challenges to be undertaken to substantially increase the AI-based neurotechnology ecosystem in Spain. Expressions of interest can be submitted until November 24.

CYBERSECURITY

(17/11/2021) ENISA - [Cybersecurity Spending: An analysis of Investment Dynamics within the EU]

The European Cybersecurity Agency has published a report on the evolution of security investments under the provisions of the NIS Directive, which has been implemented by 82% of the 947 organizations identified as Essential Service Operators or Digital Service Providers. This new report aggregates data from all 27 member states and it also analyzes the impact of cybersecurity incidents and assesses how these organizations control their budget and invest to meet their cybersecurity requirements.

CYBER INDICENTS

(18/11/2021) Fed/FDIC/OCC – Final rule requiring computer-security incident notification

Federal bank regulatory agencies have announced the approval of a final rule to improve the sharing of information about cyber incidents that may affect the U.S. banking system. The final rule requires a banking organization to notify its primary federal regulator of any significant computer-security incident as soon as possible and no later than 36 hours after the banking organization determines that a cyber incident has occurred.

CYBERSECURITY

(22/11/2021) ENISA – Step Towards Foresight on Emerging Cybersecurity Challenges

The European Union Agency for Cybersecurity (ENISA) has published the first report on foresight to improve cybersecurity resilience and support the planning of its work. As a key element of ENISA's strategy, foresight increases knowledge and understanding of emerging and future challenges, thus providing a pathway to finding solutions to address those challenges and strengthen the EU's resilience to cybersecurity threats.

START-UP COMPANIES

(26/11/2021) CNMC – La CNMC analiza el anteproyecto de ley para fomentar la creación de empresas emergentes

The CNMC has published the report on the draft regulation to promote the start-up ecosystem. The main objective of the future regulation is to promote the creation of innovative companies through various actions, including tax measures, burden relief, facilitation of regulated testing environments and subsidies. The draft regulation also aims to attract foreign investment through regulatory and fiscal measures, as well as to encourage digital nomadism with the creation of a new visa category and residence authorisation.

ARTIFICIAL INTELIGENCE

(01/12/2021) ISACA – Artificial Intelligence Adoption in Internal Audit Processes

The Information Systems Audit and Control Association (ISACA) has published how Artificial Intelligence (AI) may benefit internal audit. Its' implementation brings to the table three common benefits: increased efficiency and cost optimization; better resource utilization; and increased business value. With AI applications, internal auditors have an opportunity to lend their expertise in auditing and examine more details of audit findings.

DIGITAL TRANSFORMATION

(10/12/2021) EIOPA – EIOPA sets out a forward looking digital transformation strategy

The European Insurance and Occupational Pensions Authority (EIOPA) has published its digital transformation strategy, to ensure a systematic, balanced and holistic approach to the technological transformation of the European insurance and pensions markets and their supervision that is currently underway. Digital transformation is generating a wave of change across economic and financial sectors, affecting consumers and businesses across the EU. The EIPOA identifies five long term priorities: i) development of a data ecosystem; ii) supporting artificial intelligence; iii) financial stability and resilience; iv) benefiting from the European single market; and v) enhancing the supervisory capabilities of EIOPA and national competent authorities.

CYBER STRESS TEST

(13/12/2021) PRA – Prudential Regulation Authority statement on the 2022 cyber stress test: Retail payment system

The Prudential Regulation Authority (PRA) has announced that it will invite a number of firms to participate in a voluntary cyber stress test. The stress test, which was announced in March 2021, will focus on a severe data integrity incident as the disruption scenario and will test firms' ability to meet the impact tolerance for payments in a severe but plausible scenario. Impact tolerance is broadly defined as the maximum level of disruption that could be tolerated for a service provided by the finance system.

Other publications of interest

Technology

Atificial intelligence

(14/12/2021) ENISA – How to make Machine Learning Cyber Secure?

The European Union Agency for Cybersecurity (ENISA) has published the Securing Machine Learning Algorithms (ML) report. This report presents a taxonomy of ML techniques and core functionalities. The report also includes a mapping of the threats targeting ML techniques and the vulnerabilities of ML algorithms. It provides a list of relevant security controls recommended to enhance cybersecurity in systems relying on ML techniques.

5G Cibersecurity

(15/12/2021) CNMC – La CNMC informa sobre el Anteproyecto de Ley de Ciberseguridad 5G

The Comisión Nacional de los Mercados y la Competencia (CNMC) has published its report on the Draft Bill on 5G Cybersecurity prepared by the Secretary of State for Telecommunications and Digital Infrastructure. The purpose of the Draft Bill is to establish the specific security requirements for the deployment and operation of networks and services based on 5G technology, incorporating the measures agreed between the Member States into national regulations. The CNMC takes a positive view of this future regulation, as it reinforces the security of networks based on 5G technology and, therefore, of the new services that will be provided by these networks. Furthermore, this regulation will underpin the digital transformation in multiple economic sectors and essential services for society.

Artificial Intelligence

(22/12/2021) CESE – Dictamen del Comité Económico y Social Europeo sobre la «Propuesta de Reglamento del Parlamento Europeo y del Consejo por el que se establecen normas armonizadas en materia de inteligencia artificial (Ley de Inteligencia Artificial) y se modifican determinados actos legislativos de la Unión»

The European Economic and Social Committee (EESC) has published an Opinion on the Proposal for a Regulation of the European Parliament and of the Council laying down harmonised rules in the field of artificial intelligence and amending certain legislative acts of the Union. The Committee welcomes the fact that the Commission proposal for the Artificial Intelligence Act not only addresses the risks associated with AI, but also raises the bar substantially as regards the quality, performance and trustworthiness of AI that the EU is willing to allow.

Digital transformation

(22/12/2021) – Tesoro Público – Resolución del 22 de diciembre de 2021 por la que se publica el listado de proyectos presentados a la segunda cohorte del espacio controlado de pruebas (Sandbox) que han recibido una evaluación previa favorable / Resolución de 22 de diciembre de 2021 por la que se convoca el acceso al espacio controlado de pruebas previsto en la Ley 7/2020, de 13 de noviembre, para la transformación digital del sistema financiero

The Secretaría General del Tesoro y Financiación Internacional has published the resolution on the list of projects and the favourable pre-assessment of the second call for the testing environment known as sandbox. In addition, it has published the resolution publishing the third call for the sandbox. The start date of the call will be 1 March 2022 and will end on 12 April 2022. Interested parties shall submit their application electronically through the electronic headquarters of the Secretaría General or the general access point.

Cybersecurity

(23/12/2021) Anatel – Las obligaciones de ciberseguridad para las APP propietarias de infraestructuras críticas entran en consulta pública

The Agencia Nacional de Telecomunicaciones (Anatel) from Brazil will receive, until February 4, 2022, contributions to the public consultation on the scope of the Cybersecurity Regulation applied to the Telecommunications Sector. According to Anatel's proposal, some small providers (APP) that have critical infrastructure would be subject to comply with the Regulation's obligations. The proposal extends the focus of the resolution to APPs with submarine cables with international destination and to mobile telephony providers with their own network. Anatel also proposes the incidence of obligations for APPs that have a support network for the transport of interstate traffic in the wholesale market.

(27/12/2021) BoS – El Banco de España aprueba la guía de implementación de TIBER-ES

The Executive Commission of the Bank of Spain (BoS) has approved the TIBER-ES implementation guide, thus completing the national adoption of the advanced cybersecurity testing framework published by the ECB (TIBER-EU). Any financial institution or market infrastructure operating in Spain can undergo a TIBER-ES test, on a voluntary basis, although the degree of sophistication of these tests makes them recommendable only for those that have a certain level of maturity in cyber resilience.

Other publications of interest

Technology

Science, technology and innovation

(28/12/2021) – DOF – Decreto por el que se aprueba el Programa Especial de Ciencia, Tecnología e Innovación 2021-2024.

The Government of Mexico has published a Decree approving the Special Program for Science, Technology and Innovation 2021 - 2024. This Program is updated every three years, coinciding with the beginning of each new Legislature of the Congress of the Union and must include a long-term vision and a projection of up to twenty-five years, establishing the basis for the Science, Technology and Innovation sector to advance towards the solution of national problems and its strengthening. It also contains, among other aspects, the general policy to support science, technology, priority areas of knowledge and technological innovation, as well as strategic projects.

Artificial Intelligence

(29/12/2021) – ECB – Opinion of the European Central Bank of 29 December 2021 on a proposal for a regulation laying down harmonised rules on artificial intelligence (CON/2021/40) and Technical working document produced in connection with ECB Opinion

The European Central Bank (ECB) has published the opinion on harmonised artificial intelligence rules. The ECB acknowledges the importance of setting harmonised requirements specific to AI systems to ensure a consistent and high level of protection of overriding reasons of public interest such as health, safety and fundamental rights. The ECB further acknowledges the increasing importance of AI-enabled innovation in the banking sector.

Other publications of interest

Others

EBA RISK DASHBOARD

(07/10/2021) EBA – EBA Risk Dashboard Q12021

The European Banking Authority (EBA) has published the second quarter Risk Dashboard of 2021. In this quarter, banks' return on equity (RoE) remained at levels similar to Q1. While the non-performing loan (NPL) ratio declined, Furthermore, cyber and information and communication technology (ICT) related risks remained high.

INVESTMENT RECOMMENDATIONS

(28/10/2021) ESMA – ESMA addresses investment recommendations made on social media platforms

The European Securities and Markets Authority (ESMA) has published a Public Statement on investment recommendations made on social media. ESMA makes clear what investment recommendations are, how to post them on social media platforms and what the consequences of possible breaches of the EU Market Abuse Regulation can be.

PSD2

(28/10/2021) EBA – EBA consults on the amendment to its technical standards on strong customer authentication and secure communication in relation to the 90-day exemption for account access

The European Banking Authority (EBA) has published a consultation on the amendment of Regulatory Technical Standards (RTS) on strong customer authentication and secure communication (SCA&CSC) under the Payment Services Directive (PSD2) with regard to 90-day exemption from SCA for account access. Comments can be submitted by November 25, 2021.

EIOPA RISK DASHBOARD

(03/11/2021) EIOPA - Risk Dashboard: European insurers' risk levels remain broadly stable

The European Insurance and Occupational Pensions Authority (EIOPA) has published its Risk Dashboard based on Solvency II data from the second quarter of 2021. The results show that insurers' exposures to macro risks remain at a high level while all other risk categories, such as profitability and solvency risks, stay at medium levels.

RECOVERY PLANS

(09/11/2021) EBA – EBA publishes Guidelines on recovery plan indicators

The European Banking Authority (EBA) has published Guidelines on recovery plan indicators. The Guidelines establish a common EU approach for developing the framework of recovery plan indicators, providing additional guidance on indicators' calibration, monitoring and breaches notifications. The guidelines aim at strengthening the quality of recovery indicators framework and contributing to effective crisis preparedness of institutions.

CROWDFUNDING

(10/11/2021) ESMA – ESMA publishes technical standars on crowdfunding

The European Banking Authority (EBA) has published a 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. This final report incorporates minor changes with respect to the consultation document published in May 2021. Attached to this email is the alert generated on the consultation document.

O-SII

(15/11/2021) BoE – Amendments to the FPC's framework for the O-SII buffer

The Financial Policy Committee (FPC) of the Bank of England has submitted for consultation a proposal to change the metric used to determine other systemically important institutions (O-SII) buffer rates. And to recalibrate the thresholds used to determine O-SII buffer rates to prevent an overall tightening or loosening of the framework relative to its pre-Covid level. The consultation will close on 15 February 2022.

BENCHMARKS

(18/11/2021) ESMA – Final Report on draft RTS on the clearing and derivative trading obligations in view of the benchmark transition to risk free rates

The European Securities and Markets Authority (ESMA), has published its final report on the clearing (CO) and derivative trading (DTO) obligations to accompany the benchmark transition. ESMA is proposing to remove interest rate derivatives (IRD) classes referencing GBP and USD LIBOR from both the CO and DTO.

Highly liquid financial instruments

(18/11/2021) ESMA – ESMA consults on CCP investment practices for highly liquid financial instruments

The European Securities and Markets Authority (ESMA) has published a consultation paper exploring the benefits and drawbacks of the possible inclusion of financial instruments considered highly liquid with minimal market and credit risk. It also examines whether the inclusion of MMFs is authorized by the EU Money Market Fund Regulation (MMFR).

Mortgage credit directive

(22/11/2021) EC – Consultation document review of the mortgage credit Directive

The European Commission (EC) has published a consultation paper to complement the information contained in the Mortgage Credit Directive (MCD) and to gather further information in order to determine, in line with the principles for better regulation, the effectiveness, efficiency, consistency, relevance and added value of the Directive.

LIBOR cessation

(22/11/2021) FSB – FSB Statement to Support Preparations for LIBOR Cessation

The Financial Stability Board (FSB) has issued a statement to support preparations for the cessation of LIBOR. The FSB stresses that the continuation of some key USD LIBOR maturities until June 30, 2023 is solely aimed at allowing legacy contracts to mature, rather than supporting new USD LIBOR activity.

Commodity derivative

(22/11/2021) ESMA – Draft commodity derivative technical standards under MiFID II recovery Package

The European Securities and Markets Authority (ESMA), has published its final report on the draft Regulatory Technical Standards (RTS) for commodity derivatives under the MiFID II Recovery Package. The draft RTS include proposals on the application procedure for position limit exemptions, a methodology for determining position limits and position management tools for trading venues.

Operational resilience

(25/11/2021) PRA – Operational Continuity in Resolution: CRR firms, Solvency II firms, and Financial Holding Companies (for Operational Resilience)

The Prudential Regulation Authority's (PRA) has published the Consultation Paper 21/21 in which there are set out proposals to make other minor formatting and clarification amendments to the Operational Resilience and Operational Continuity Parts of the PRA Rulebook.

Client clearing

(29/11/2021) IOSCO – Call for comments on access to central clearing and portability

The International Organization of Securities Commissions (IOSCO) has published a consultative report focusing on access to central counterparties (CCP) clearing and client-position portability. The report considers the potential benefits and challenges of new access models developed by CCPs and discusses good practices to facilitate porting of client positions. It also seeks to identify potential issues for follow-up work. Comments can be sent before 24 January 2022.

Appointed representative's regime

(30/11/2021) FCA – CP21/34: Improving the Appointed Representatives regime

The Financial Conduct Authority (FCA) has published a public consultation setting out changes to the Appointed Representative (AR), which was created to allow self-employed representatives to engage regulated activities without having to be authorized. The aim of this is to reduce the potential harm that can be caused to the sectors they operate in as a result of inadequate oversight and control, or lack of due diligence before appointing an AR. Among its proposals are: i) require principals to provide additional and more timely information about their ARs and; ii) clarify and sthrengthen the responsibilities and expectations of principals.

Pensión tools

(01/12/2021) EIOPA – EIOPA submits its advice on pensions tools to the European Commission

The European Insurance and Occupational Pensions Authority (EIOPA) published today its advice to the European Commission (EC) on two pensions tools: i) the pension tracking system; ii) and the pensions dashboard. The pension tracking system aims to help citizens to understand what income they can expect in their retirement and raise their awareness on whether this will be sufficient. While the aim of the pensions dashboard is to increase transparency on adequacy and sustainability gaps to support policy makers at national and EU level to make informed decisions.

Federal banking system

(06/12/2021) OCC – OCC Reports on Risks, Effects of COVID-19 Pandemic on Federal Banking System

The Office of the Comptroller of the Currency (OCC) has published a report on the key issues facing the federal banking system and the effects of the COVID-19 pandemic on the federal banking sector in its Semiannual Risk Perspective for Fall 2021. Highlights of the report include that operational risk is elevated as banks respond to an evolving operating environment and cyber risks. Also, credit risk is moderate as government programs and appropriate risk management has limited the potential credit impact. In addition, compliance risk is higher driven by regulatory changes and policy initiatives.

Insurance contracts

(09/12/2021) IFRS - IASB provides transition option to insurers applying IFRS 17

The International Accounting Standards Board (IASB) has issued a narrow-scope amendment to the transition requirements in IFRS 17 Insurance Contracts, providing insurers with an option aimed at improving the usefulness of information to investors on initial application of the new Standard. The amendment will help insurers to avoid these temporary accounting mismatches and, therefore, will improve the usefulness of comparative information for investors. It does this by providing insurers with an option for the presentation of comparative information about financial assets.

Payments statistics

(22/12/2021) BdE – Audiencia pública del proyecto de circular sobre normas para el envío al Banco de España de estadísticas de pagos, conforme al Reglamento (UE) 1409/2013 del BCE, de 28 de noviembre y al artículo 67.4 del Real Decreto-ley 19/2018, de 23 de noviembre

The Bank of Spain (BoS) has published the Draft Circular on rules for sending to the BoS payment statistics, which will be applicable both for payment service providers and payment system operators. This Circular determines the form and periodicity in which statistical data on fraud related to different means of payment referred to in Royal Decree-Law 19/2018 on payment services and other urgent measures in financial matters must be provided to the BdE. The deadline to send comments on this draft circular is January 17, 2022.

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US	SEC, Fed, OCC, FDIC
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