

# 1Q21 Regulation Outlook

Design and Layout

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# Executive Summary

***In the first quarter of 2021, the ECB has published the Outcome of its 2020 Supervisory Review and Evaluation Process (SREP). For its part, the EBA has launched the 2021 EU-wide stress test and has published a CP on draft ITS on Pillar 3 disclosures on ESG risks***

## **Global publications**

- The FSB has published the **work programme for 2021**. The main lines of action are: i) Enhancing the resilience of the non-bank financial intermediation (NBFi) sector; ii) enhancing cross-border payments; iii) promoting rules on climate change and sustainable finance; iii) supporting benchmark transition

## **European publications**

- For its part, the ECB has published the **outcome of its 2020 Supervisory Review and Evaluation Process (SREP)** which is focused on banks' ability to address the challenges and risks to capital and liquidity arising from the ongoing pandemic. Based on the SREP analysis and taking into account the situation triggered by the pandemic, the ECB has also published the 2021 Supervisory priorities which draw on an assessment of the key risks and vulnerabilities in the banking sector.
- The EBA has published its **final revised Guidelines on ML/TF risk factors** which set out the factors that firms should consider when assessing the ML/TF risk and support CAs' AML/CFT supervision efforts when assessing the adequacy of firms' risk assessments and AML/CFT policies and procedures.
- Furthermore, the EBA has launched the **2021 EU-wide stress test and released the macroeconomic scenarios** and the final templates. The EU-wide stress test will be conducted on a sample of 50 EU banks and the scenarios will be applied over a period of 3 years from end 2021 to end 2023.
- The EBA has published **Consultation Paper (CP) on draft ITS on Pillar 3 disclosures on ESG risks** with the strategic objective of defining a single, comprehensive Pillar 3 framework under the CRR that should integrate all the relevant disclosure requirements.

## **European publications (continuation)**

- The ESAs have published the **Final Report on RTS on the content, methodologies and presentation of disclosures under SFDR** with the aim of strengthen protection for end-investors by improving ESG.

## **Local publications**

- In Spain, the BoS has published **Circular 1/2021** with the aim of incorporating new regulations introduced by the Ministerial Order of revolving credit. The BoS has also published **Circular 2/2021** with the aim of introducing amendments relating to information on cash deposits and on the recording of deposits received.
- In the US, the Fed has released the hypothetical scenarios for its **2021 bank stress tests** which describes two supervisory scenarios (baseline and severely adverse) that the Fed will use to conduct its 2021 stress tests. This publication also details additional components (e.g. the global market shock component and the counterparty default component) that the largest and most complex firms must incorporate into the supervisory scenarios.
- The PRA has published the **Key elements of 2021 stress test** which will help to ensure that risks identified by supervisors of individual banks are reflected in the scenario. Moreover, the PRA has published a Guidance for participating banks for conducting their own analysis for the 2021 stress test.





# Regulatory projections

***At European Level, the EBA will published the results of the 2021 EU-wide stress test, CRR II will be applicable and the EBA Guidelines on loan origination and monitoring will enter into force. In Spain, the Circular 2/2021 on information for determining the basis for calculating the contributions to the Deposit Guarantee Fund for Credit Institutions will enter into force***

## Regulatory projections

### 1. Next quarter

- **(US) April 2021:** Fed/FDIC/OCC Final Rule on Regulatory Capital Treatment for Investments in Certain Unsecured Debt Instruments will enter into force.
- **(Spain) June 2021:** The BoS Circular 2/2021 on information for determining the basis for calculating the contributions to the Deposit Guarantee Fund for Credit Institutions will enter into force.
- **(Europe) June 2021:** The EBA Guidelines (GL) specifying the conditions for the application of the alternative treatment of institutions' exposures related to "tri-party repurchase agreements will enter into force.
- **(Europe) June 2021:**
  - The CRR II of the EP and the Council will be applicable with certain exceptions.
  - The EP and the Council adaptation of the investment firms prudential framework will be applicable.
  - The EBA Guidelines on loan origination and monitoring will enter into force.
  - The EBA new regulatory framework for investment firms will enter into force.
  - The EBA Final draft ITS on supervisory reporting (Framework 3.0) will apply, as well as the ITS on institutions' Pillar 3 public disclosures.
  - The ECB's temporary exclusion of certain exposures (i.e. leverage ratio denominator) to central banks from the total exposure measure in view of the COVID-19 pandemic.
  - The EBA final Report on management and supervision of ESG risk will be published.

### 2. Next year







- **(Europe) 2021:** EIOPA's occupational retirement provisions 2019 stress test results will be published.
- **(Europe) July 2021:**
  - The amendments introduced by the CRR II on the ECB Guide which updates the risk-type-specific chapters of the Guide to the TRIM on internal models will apply.
  - The EIOPA Guidelines on ICT security and governance will apply.
  - It is expected that the EBA wide Stress Test results will be published.
- **(US) July 2021:**
  - FED and FDIC Final Rule on modifications to resolution plan requirements will be applicable for companies subject to category I, II and III standards.
  - Fed/FDIC/OCC Final Rule on NSFR: Liquidity Risk Measurement will apply.
- **(Europe) September 2021:** the EBA's ITS on specific reporting requirements for market risk will apply.
- **(Global) November 2021:** the FSB will update the list of G-SIBs.
- **(Global) December 2021:** the BCBS new assessment methodology for G-SIBs will be applicable.
- **(UK) December 2021:** the PRA will next reassess firms' Systemic Risk Buffer rates.
- **(Europe) January 2022:**
  - The EBA GL on IRB parameters estimation will be applicable.
  - The EBA final RTS on an economic downturn as well as the GL for the estimation of LGD appropriate for an economic downturn will be applicable.
  - The ESAs provisions regarding product disclosure in periodic reports RTS on ESG disclosure standards will apply.
  - The EBA GL on CRM for institutions applying the IRB approach with own estimates of LGDs will apply.
  - The EC Delegated Regulation on EU classification system for green investments will apply.
- **(UK) January 2022:**
  - The PRA will require firms to comply with an end-state MREL.
  - The PRA PS 11/20 on credit risk: PD and LGD estimation will enter into force.

### 3. More than a year






- **(Europe) 2022:** the proposed new framework would be introduced in the 2022 EU-wide stress test.
- **(Europe) June 2022:** The EBA Final draft comprehensive ITS on institutions' Pillar 3 disclosures on ESG risks will apply.
- **(US) July 2022:** the Final Rule of the Fed and the FDIC on modifications to resolution plan requirements for covered companies that are triennial reduced filers will apply.
- **(Europe) July 2022:** It will be applicable the EP and Council Directive (EU) 2019/2162 and Regulation (EU) 2019/2160 on exposures in the form of covered bonds.
- **(Europe) December 2022:** the EBA will issue an impact assessment of MREL on banks' profitability.
- **(Global) January 2023:**
  - The revised SA for credit risk, the revised IRB framework, the revised CVA framework, the revised operational and market risk framework published in Basel III and the standard on the minimum capital requirements for market risk by the BCBS will be implemented. Moreover, the LR framework using the revised exposure definition and the G-SIB buffer will be applicable.
  - Most of the new disclosure requirements of the BCBS Pillar III updated framework will have to be implemented.
  - The BCBS technical amendment on the capital treatment of securitisations of NPLs will enter into force.
  - The amendments to IFRS 17 proposed by the IASB will enter into force.
  - The ESAs Final Report on RTS on the content, methodologies and presentation of disclosures under SFDR will apply.
  - The ESAs Final Report on the draft ITS under the FICOD on reporting templates for intra-group transactions and risk concentration.
- **(Europe) January 2024:**
  - SRB's deadline of meeting external and internal MREL, including subordination requirements.
  - EBA Guidelines on Resolvability will apply.
- **(Global) January 2028:** an output floor of 72.5% of RWA in the SA approach will be applicable according to the Basel III reform of the BCBS.

# Quarterly publications

## Summary of outstanding publications of this quarter

Topic	Title	Date	Page
 <b>Financial Stability Board</b>			
<b>Work Programme</b>	<ul style="list-style-type: none"> <li>2021 Work Programme</li> </ul>	21/01/2021	10
 <b>European Commission</b>			
<b>Financial System</b>	<ul style="list-style-type: none"> <li>Strategy to stimulate the openness, strength and resilience of the EU's economic and financial system</li> </ul>	20/01/2021	11
 <b>European Central Bank</b>			
<b>SREP</b>	<ul style="list-style-type: none"> <li>Results of the 2020 SREP and Supervisory priorities for 2021</li> </ul>	29/01/2021	12
<b>Consolidation</b>	<ul style="list-style-type: none"> <li>Guide on the supervisory approach to consolidation in the banking sector</li> </ul>	13/01/2021	13
 <b>European Securities and Markets Authority</b>			
<b>Data reporting</b>	<ul style="list-style-type: none"> <li>Final Report on the review of transaction and reference data reporting obligations</li> </ul>	23/03/2021	14
<b>ECSP Regulation</b>	<ul style="list-style-type: none"> <li>CP on RTS under the ECSP Regulation</li> </ul>	04/03/2021	15
 <b>European Insurance and Occupational Pensions Authority</b>			
<b>Convergence Plan</b>	<ul style="list-style-type: none"> <li>Supervisory Convergence Plan for 2021</li> </ul>	19/02/2021	16
<b>ORSA</b>	<ul style="list-style-type: none"> <li>Consultation Paper on the Supervisory Statement on ORSA in context of COVID-19</li> </ul>	05/01/2021	17
 <b>European Banking Authority</b>			
<b>Recovery plans</b>	<ul style="list-style-type: none"> <li>CP on draft Guidelines on resolvability CP on draft revised Guidelines on recovery plans indicators</li> </ul>	24/03/2021	18
<b>Resolvability</b>	<ul style="list-style-type: none"> <li>CP on draft Guidelines on resolvability</li> </ul>	23/03/2021	19
<b>ML/TF</b>	<ul style="list-style-type: none"> <li>GL on money laundering and terrorist financing risk factors</li> </ul>	05/03/2021	20
<b>Pillar 3</b>	<ul style="list-style-type: none"> <li>CP on draft ITS on Pillar 3 disclosures on ESG risks</li> </ul>	02/03/2021	21
<b>CRR II</b>	<ul style="list-style-type: none"> <li>GL specifying the conditions for the application of the alternative treatment of institutions exposures</li> </ul>	19/02/2021	22
<b>G-SIIs</b>	<ul style="list-style-type: none"> <li>GL on large exposure limits ITS on disclosure of indicators of G-SIIs</li> </ul>	19/02/2021	23
<b>Stress Test</b>	<ul style="list-style-type: none"> <li>2021 EU-wide stress test exercise</li> </ul>	03/02/2021	24



Topic	Title	Date	Page
	<b>European Supervision Authorities</b>		
<b>SFDR</b>	• Final Report on RTS on the content, methodologies and presentation of disclosures under SFDR	05/02/2021	25
<b>FICOD</b>	• Final Report on the draft ITS under the FICOD on reporting templates for IGT and RC	20/01/2021	26
	<b>Bank of Spain</b>		
<b>Transparency</b>	• Proyecto de circular sobre modelos de estados reservados en materia de conducta de mercado y transparencia	25/03/2021	28
<b>Supervision and solvency</b>	• Consulta pública del Proyecto de circular por la que se modifica la Circular 2/2016, de 2 de febrero, a las entidades de crédito, sobre supervisión y solvencia	03/02/2021	29
<b>FGD and CIR</b>	• Circular 12021 y Circular 22021	03/02/2021	30
	<b>Government of Spain</b>		
<b>COVID-19</b>	• Real Decreto 5/2021, de medidas extraordinarias en respuesta a la pandemia de COVID-19	17/03/2021	31
<b>Recovery Plan</b>	• Real Decreto-Ley 36/2020 de la Administración Pública y del Plan de Recuperación	12/01/2021	32
	<b>Reserva Federal / Corporación Federal de Seguros de Depósitos / Oficina del Auditor de la Moneda</b>		
<b>Stress Test</b>	• 2021 Stress Test Scenarios	16/02/2021	34
	<b>Autoridad de Regulación Prudencial</b>		
<b>CRR</b>	• Stress testing the UK banking system: 2021 Key elements and stress test guidance	16/02/2021	35
<b>Stress test</b>	• Package of proposals relating to resolution policy	22/01/2021	36

# Publications of the quarter

## International publications



21/01/2021

### 2021 Work Programme

#### 1. Context

The FSB has published the **work programme for 2021** which aims to maximise the value of FSB work to foster global financial stability while preserving the FSB's capacity to respond to new issues that may emerge. Also, the work programme reflects a strategic shift in priorities in the COVID-19 environment.

#### 2. Main points

- **Supporting international cooperation and coordination on the COVID-19 response.** The FSB will continue: i) to assess vulnerabilities in the global financial system; ii) share information on policy responses; iii) assess their effectiveness and coordinate the future timely unwinding of the temporary measures taken; and iv) monitor the use of flexibility and consistency of policy responses with existing international financial standards.
- **Enhancing the resilience of the non-bank financial intermediation (NBFi) sector.** The FSB's published a holistic review of the March market turmoil which lays out a comprehensive and ambitious work programme for strengthening the resilience of NBFi. Work in 2021 will focus on the specific issues identified in the holistic review, including money market funds (MMFs), open-ended funds, margining practices, liquidity, structure and resilience of core bond markets, and cross-border USD funding.
- **Enhancing central counterparty (CCP) resilience, recovery and resolvability.** Work will consider the need for, and develop as appropriate, international policy on financial resources in recovery and resolution to further strengthen the resilience and resolvability of CCPs.
- **Enhancing cross-border payments.** In October 2020, the FSB published a roadmap to address challenges and frictions in existing cross-border payment systems and processes. In 2021, the FSB will have to complete a number of actions under the roadmap, including the development of quantitative targets for the roadmap, a stocktake of data frameworks and exploration of the scope for, and obstacles to develop, a global digital Unique Identifier.
- **Climate change and sustainable finance.** The FSB will explore ways to promote globally comparable, high-quality and auditable standards of disclosure based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, and review regulatory and supervisory approaches to addressing climate risks at financial institutions.
- **Benchmark transition.** The FSB will continue to support transition away from LIBOR and will monitor market participants' readiness and give guidance to ensure a smooth transition to the new financial benchmarks, and report on transition progress to the G20.
- **Digital innovation, and cyber and operational resilience.** The FSB will continue its work on topics relating to the financial stability, regulatory and supervisory implications of FinTech, including regulatory and supervisory issues associated with the use of artificial intelligence and machine learning, RegTech, SupTech and BigTech.

# Publications of the quarter

## European publications



20/01/2021

### Strategy to stimulate the openness, strength and resilience of the EU's economic and financial system

#### 1. Context

In 2018, the EC published a Communication on the International Role of the Euro, which had a strong focus on strengthening and deepening the Economic and Monetary Union (EMU). That Communication was accompanied by a Recommendation on the international role of the euro in energy and followed by five sectoral consultations on the role of the euro in foreign exchange markets, in the energy sector, in raw materials markets, in the trade of agriculture and food commodities and in the transport sector.

In this context, the EC has presented a **new strategy to stimulate the openness, strength and resilience of the EU's economic and financial system** for the years to come. This strategy aims to better enable Europe to play a leading role in global economic governance, while protecting the EU from unfair and abusive practices. The strategy also acknowledges the unprecedented recovery plan 'Next Generation EU' that the EU adopted to tackle the COVID-19 pandemic and to help Europe's economies recover and embrace the green and digital transformations.

#### 2. Main points

- **Promoting a stronger international role of the euro.** The EC will:
  - Complete the Banking Union and make further significant progress on the Capital Markets Union.
  - Further support the development of euro-denominated commodity derivatives for energy and raw materials and will facilitate the emergence of euro-denominated benchmark indices and trading venues covering core sectors, including nascent energy markets, such as hydrogen.
  - Launch outreach to promote euro-denominated investments, facilitate the use of the euro as an invoicing and denomination currency and foster a better understanding of the obstacles for its wider use.

The issuance of high-quality euro-denominated bonds under Next Generation EU will add significant depth and liquidity to the EU's capital markets over the coming years and will make them, and the euro, more attractive for investors. Promoting sustainable finance is also an opportunity to develop EU financial markets into a global 'green finance' hub, bolstering the euro as the default currency for sustainable financial products. In this context, the EC will work to promote the use of green bonds as tools for the financing of energy investments necessary to reach the 2030 energy and climate targets. The EC will:

  - Issue 30% of the total bonds under NextGenerationEU in the form of green bonds.
  - Look for possibilities to expand the role of the EU Emission Trading System (ETS) to maximise its environmental outcome and to support ETS trading activity in the EU.
  - Continue supporting the work of the European Central Bank (ECB) on a possible introduction of a digital euro, as a complement to cash.
- **Further developing EU financial market infrastructures and improving their resilience, including towards the extraterritorial application of sanctions by third countries.** The EC, in cooperation with the ECB and the European Supervisory Authorities (ESAs), will:
  - Engage with financial-market infrastructure companies to carry out a thorough analysis of their vulnerabilities as regards the unlawful extraterritorial application of unilateral measures by third countries and take action to address such vulnerabilities.
  - Establish a working group to assess possible technical issues related to the transfer of financial contracts denominated in euro or other EU currencies cleared outside the EU to central counterparties located in the EU.
  - Explore ways to ensure the uninterrupted flow of essential financial services, including payments, with EU entities or persons targeted by the extra-territorial application of third-country unilateral sanctions.
- **Further promoting the uniform implementation and enforcement of the EU's own sanctions.** The EC will:
  - Develop a database in 2021, the Sanctions Information Exchange Repository, to ensure effective reporting and exchange of information between Member States and the EC on the implementation and enforcement of sanctions.
  - Will work with Member States to establish a single contact point for enforcement and implementation issues with cross-border dimensions in 2021.
  - Continue to further ensure that EU funds provided to third countries, international organisations and international financial institutions are not used in violation of EU sanctions.
  - Set up a dedicated system allowing for the anonymous reporting of sanctions evasion, including whistleblowing.
  - Strengthen cooperation on sanctions, in particular with G-7 partners.
  - Consider additional policy options to further deter and counteract the unlawful extra-territorial application of unilateral sanctions by third countries to EU operators.

29/01/2021

## Results of the 2020 SREP and Supervisory priorities of 2021

### 1. Context

The ECB has published the outcome of its **2020 Supervisory Review and Evaluation Process (SREP)** which is focused on banks' ability to address the challenges and risks to capital and liquidity arising from the ongoing pandemic. Based on the SREP analysis and taking into account the situation triggered by the pandemic, the ECB has also published the **2021 Supervisory priorities** which draw on an assessment of the key risks and vulnerabilities in the banking sector.

### 2. Main points

#### Results of the 2020 SREP

- **Business model.** Bank's profitability fell in 2020, mainly owing to higher impairment flows, lower net interest income and a decline in fees and commissions. On the other hand, decreasing margins intensified the pressure on banks to adjust their cost bases, leading to a number of cost-cutting measures over the course of 2020, such as branch consolidation, innovation projects and remote working arrangements.
- **Internal governance.** Most banks managed to adapt their governance arrangements to adequately manage and monitor risks stemming from the COVID-19 crisis. Nonetheless, some banks were slow to address this issues in relation to: i) lack of adequate involvement of the management body; ii) issues regarding credit risk management identified also within the internal control functions; and iii) sustained structural weaknesses in the area of risk data aggregation and reporting.
- **Credit risk.** Deteriorating economic conditions during the pandemic slowed the pace of the ongoing reduction in non-performing loans but there is also an embedded level of distress in loan books that is not yet fully evident.
- **Capital adequacy.** Banks with low capital headroom, that is with a small margin between their capital ratio and minimum requirements, were subject to recommendations to enhance their capital planning.
- **Banks operational resilience.** Banks broadly kept their businesses running during the crisis, resulting in no significant rise in operational losses due to business disruptions or system failures.

#### 2021 Supervisory priorities

- **Credit risk management.** The ECB Banking Supervision will focus its efforts on the adequacy of banks' credit risk management, operations, monitoring and reporting. Particular emphasis will be placed not only on banks' capacity to identify any deterioration in asset quality at an early stage and make timely and adequate provisions accordingly, but also on their capacity to continue taking the necessary actions to appropriately manage loan arrears and non-performing loans.
- **Capital strength.** The Joint Supervisory Teams (JSTs) will therefore scrutinise the appropriateness of banks' capital planning and challenge the adequacy of their dividend and share buyback policies in this respect. Furthermore, the EU-wide stress test coordinated by the EBA will be conducted in the course of 2021 and will be an important element in gauging banks' capital resilience as part of the supervisory dialogue on capital planning.
- **Business model sustainability.** The ECB Banking Supervision will continue its efforts to challenge banks' strategic plans and the underlying measures taken by banks' senior management to overcome existing shortcomings. Moreover, since the pandemic has accelerated the process of digital transformation, supervisors will be assessing banks' progress in response to these developments. Where appropriate, JSTs will engage in a structured supervisory dialogue with banks' management on the oversight of their business strategies.
- **Governance.** The ECB Banking Supervision will challenge banks on their risk data aggregation capabilities and the risk information reported to management. Furthermore, the ECB will continue its assessment of the prudential impact of money laundering and terrorism financing risks, particularly in relation to banks' internal control frameworks.



13/01/2021

## Guide on the supervisory approach to consolidation in the banking sector

### 1. Context

Transactions leading to consolidation are generally initiated and executed by market participants with the goal of optimising their opportunities by forging new combinations of existing business activities. In the banking sector, consolidation transactions are also scrutinised by the prudential supervisor. Its prudential mandate is neither to assess whether consolidation efforts are beneficial as such nor to push for particular types of transactions but to make sure that the resulting business combination complies with prudential requirements and ensures effective and prudent risk management.

In this context, the ECB has published the **Guide on the supervisory approach to consolidation in the banking sector** which intends to clarify, within the current regulatory framework, the principles underpinning the prudential supervisory approach it follows when determining whether the arrangements implemented by a credit institution resulting from a consolidation ensure the sound management and coverage of its risks.

### 2. Main points

- **Overall approach to the supervisory assessment of consolidation projects.** ECB Banking Supervision examines from a prudential perspective the consolidation projects brought to its attention. This assessment is aimed at ascertaining that:
  - The entity resulting from the business combination will meet all prudential requirements when the transaction is implemented.
  - The business combination resulting from the transaction is sustainable, and therefore likely to allow permanent compliance with the prudential requirements also in the future.
 Depending on the circumstances, the process for the supervisory assessment of consolidation transactions can encompass up to three phases:
  - Early communication: involved parties are expected to present the key characteristics of the proposed business combination to ECB Banking Supervision.
  - Application: the involved parties submit the formal application for business combination and the ECB Banking Supervision assesses the application and takes a decision on whether or not to object to the notified project.
  - Implementation: the consolidation is expected to progress in line with the integration plan, in a sustainable manner and in full compliance with the prudential requirements and conditions, or with commitments resulting from the application phase.
- **Supervisory expectations regarding consolidation projects.** The strategy underlying the consolidation transaction will be assessed on a case-by-case basis, according to its objectives in terms of capital, strategy, business and profitability and risk profile in order to ascertain, to the extent possible, the sustainability of the business model of the combined entity. The governance and organisational structure of the business combination is expected to follow the principles set out in the European Banking Authority (EBA) Guidelines on internal governance under CRD IV and to be adapted in order to manage possible integration challenges in a clear way.
- **Supervisory approach to key prudential aspects of the consolidation transaction.** The supervisory approach that ECB Banking Supervision intends to apply can be communicated as part of the feedback provided by credit institutions during the early communication phase.
  - Pillar 2 capital requirements (P2R) and Pillar 2 guidance (P2G). The supervisory approach for the calculation of the ex post merger P2R and P2G will be guided by the following two key principles:
    - A thorough assessment and mitigation of the main weaknesses of the combined entity and of the execution risk in the business plan.
    - An appropriate level of Pillar 2 capital, which is aligned with the risk profile of the combined entity.
  - Internal models. As a general rule, ECB Banking Supervision grants approval to use internal models for the purpose of calculating capital requirements to a specific legal entity, and this approval is not transferable to another legal entity. In the event of a business combination, subject to a clear model mapping and a credible internal models roll-out plan to address the specific internal model issues created through the merger, as well as other conditions where appropriate, ECB Banking Supervision acknowledges that there will be a limited period of time in which banks resulting from the business combination might continue to use the internal models that were in place before the merger.
- **Ongoing supervision of the newly combined entity.** ECB Banking Supervision monitors the implementation of the integration plan and, where justified, takes swift supervisory action in case of deviation from the agreed plan and timeline.
- **Application of supervisory approach to consolidation transactions involving less significant institutions (LSIs).** The competence of ECB Banking Supervision vis-à-vis LSIs is limited to business combinations requiring an assessment of a proposed qualifying holding notification, while National Competent Authorities (NCAs) have competence for merger approvals when provided for by national law.



23/03/2021

## Final Report on the review of transaction and reference data reporting obligations

### 1. Context

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

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

### 2. Main points

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

### 3. Next Steps

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





04/03/2021

## CP on RTS under the ECSP Regulation

### 1. Context

In 2020, the European Parliament and the Council published Regulation on European crowdfunding service providers for business (ECSP). This Regulation requires ESMA to develop draft regulatory technical standards (RTS) and implementing technical standards (ITS) on a variety of topics.

In this context, the ESMA has published the **Consultation Paper (CP) on Draft RTS under the ECSP Regulation** which regulates for the first time at EU level lending-based and equity-based crowdfunding services.

### 2. Main points

This CP includes ESMA specifications on:

- **Complaint handling.** It specifies the standard formats and procedures for the complaint handling process by specifying a set of minimum information to be included therein and by proposing that the procedures should be published on the crowdfunding service providers (CSPs') websites.
- **Conflicts of interest.** It specifies: i) the requirements for the maintenance and operation of internal rules to prevent conflicts of interest; ii) the steps to prevent, identify, manage and disclose conflicts of interest; and iii) the arrangements for the disclosure of conflicts of interest.
- **Business continuity plan.** It specifies the measures and procedures for the business continuity plan which includes measures to ensure continuity of the provision of critical services measures and procedures aiming at ensuring the sound administration of agreements and critical business data.
- **Application for authorisation.** It specifies the requirements and arrangements that a legal person shall apply to the competent authorities of the Member State where it is established for authorisation as a CSP.
- **Information to client on default rate of projects.** It defines the methodology for the calculation of the default rate and provides the methodology for the calculation of the actual and expected default rates of the loans facilitated by the CSP by risk category.
- **Entry knowledge test and simulation of the ability to bear loss.** It specifies the arrangements for CSP to: i) carry out the assessment of the appropriateness of crowdfunding services; ii) carry out the simulation of the ability to bear losses; and iii) provide the information to non-sophisticated investors about the risks involved in a crowdfunding platform.
- **Key investment information sheet.** It specifies the requirements for and content of the model for presenting the key investment information sheet. This information includes a description of the main risks related to the crowdfunding project, such as project risk or sector risk.
- **Reporting by crowdfunding service providers to Member State competent authorities (NCAs).** It sets out the data standards and formats, templates and procedures for reporting information to competent authorities.
- **Publication of national provisions concerning marketing requirements.** It is established the contact point, the timeframe and the templates of the notifications that Competent

### 3. Next Steps

- Comments to this CP can be sent before **28 May 2021**.

19/02/2021

## Supervisory Convergence Plan for 2021

### 1. Context

The EIOPA has published its **2021 Supervisory Convergence Plan** with the aim to complete the priorities stemming from the previous plan, while allowing for flexibility to continue monitoring and mitigating the impact from the Covid-19 pandemic.

### 2. Main points

- **Practical implementation of the common supervisory culture and further development of supervisory tools.** EIOPA will, amongst other priorities, continue working on common benchmarks for the supervision of internal models, supervisory assessments of conduct risks but also work on the areas where the need for further development was identified, for example the application of proportionality in Solvency II. Also, the EIOPA will be taking step-by-step measures for integrating the assessment and management of environmental, social and governance risks (ESG) into prudential and conduct supervision.
- **Risks to the internal market and the level playing field which may lead to supervisory arbitrage.** EIOPA intends to continue working on supervisory convergence tools such as assessing internal models outcomes or promoting supervisory convergence in Technical Provisions' calculation. On the other side, the EIOPA will initiate work to establish and address supervisory concerns arising from the recent market development of multi-employer IORP providers. Also, it has been identified certain inconsistencies in the way National Competent Authorities treat reinsurance undertakings with the head office located in third countries, so the EIOPA will identify potential risks to the internal market and, if any, develop adequate tools.
- **Supervision of emerging risks.** The EIOPA will Work on a system for the exchange between Competent Authorities of information regarding cybersecurity and cyber-attacks and will contribute to the establishment of a Digital Operational Resilience Framework. Also, the EIOPA will advance for example by developing a set of principles of digital responsibility, by establishing a system for the exchange between National Competent Authorities of information regarding cybersecurity and cyber-attacks as well as by implementing objectives and goals set in the Cyber Underwriting Strategy.



05/01/2021

## Consultation Paper on the Supervisory Statement on ORSA in the context of COVID-19

### 1. Context

In November 2009, the European Parliament and the Council published Solvency II. This Directive states that the own-risk and solvency assessment shall be an integral part of the business strategy and shall be taken into account on an ongoing basis in the strategic decisions of the undertaking. The performance of an ORSA under the current circumstances is to give insight into the potential impact of the COVID-19 pandemic on the undertaking's risk profile, and it promotes the identification and effective management of the undertakings' risks to ensure they have sufficient capital to absorb possible losses.

In this context, the EIOPA has published the **Consultation Paper on the Supervisory Statement on ORSA in the context of COVID-19** which promotes convergence by guiding undertakings through common supervisory expectations on the ORSA in the current situation triggered by the pandemic, taking into account that the impact on each individual undertaking can differ depending on its specific risk profile.

### 2. Main points

- **ORSA as a management tool.** The ORSA process and outcomes are expected to be used by the administrative, management or supervisory body (AMSB) in any strategic discussion in general and in particular where developments are expected to materially impact the undertaking. This outcomes can influence strategic decisions on changes for instance to underwriting and pricing practices, to risk mitigation techniques, to investments strategy, to capital management or on improvements of operational and cyber resilience.
- **Timing of the regular ORSA and/or ad-hoc ORSA.** Undertakings should assess and decide if an ad-hoc ORSA is needed based on the analysis of any material changes to the risk profile. Material changes to the undertaking's risk profile can be observed, due to: i) changes in the undertaking's market or credit risk exposure; ii) material changes in underwriting results in lines of business which are more affected by the pandemic; and iii) major amendments to business models, products offered, plans and strategies. If there is any indication of a material impact, leading to a significant change in the risk profile, undertakings should perform an ad-hoc /non-regular ORSA to be submitted to the Competent Authority earlier than the regular one if needed.
- **Scenarios used in the ORSA.** The development of the ORSA, either ad-hoc or regular, reflecting the impact of the COVID-19 pandemic, should:
  - Consider the conditions observed at a given moment and any expected stresses for example on capital markets, claims development for both nonlife business and life-business, and the impact on operational risks.
  - Include an assessment of the soundness of the business model from a forward-looking perspective.

### 3. Next steps

- Comments to this document can be submitted until **15 March 2021**.

24/03/2021

## CP on draft Guidelines on resolvability CP on draft revised Guidelines on recovery plans indicators

### 1. Context

In 2014, the European Parliament and the Council published the Bank Recovery and Resolution Directive (BRRD) which contains a mandate to the EBA to issued Guidelines to specify the minimum list of quantitative and qualitative indicators for the purposes of recovery planning. The EBA published these Guidelines in 2015.

In this context, the EBA has published a **Consultation Paper (CP) on draft revised Guidelines on recovery plans indicators** which provide additional guidance on indicators' calibration, monitoring and breaches notifications.

### 2. Main points

- **Requirements for the calibration of recovery indicators.** For the calibration of the indicator framework the institution should take into account, among others: i) the overall recovery capacity of available options; ii) the timeframe and complexity of the implementation of recovery options; and iii) the institution's risk management framework.
- **Actions and notifications upon breaching an indicator.** For the indicators' breaches to effectively display their warning potential, institutions should within one business day from the breach of the recovery indicator, alert institutions' management body and notify it to the relevant competent authorities.
- **Arrangements for monitoring recovery indicators.** The monitoring of recovery indicators by the institution should be set at an adequate frequency and allow for the timely submission of the indicators to the competent authorities upon request. When requested by competent authorities, institutions should be able to provide them with values of their full set of recovery indicators (breached or not) at least on a monthly basis, even if the values of the indicators have not changed.
- **Recovery indicators.** Institutions should include in the recovery plan at least the following main indicators: i) capital; ii) liquidity; iii) profitability; and iv) asset quality indicators. For capital indicators, these Guidelines include to the list, the MREL and TLAC. For liquidity indicators, it is removed the cost of wholesale funding indicator and there are included: i) the available unencumbered assets central bank's eligible; and ii) the liquidity position indicator.

### 3. Next steps

- Comments to this CP can be sent before **18 June 2021**.



23/03/2021

## CP on draft Guidelines on resolvability

### 1. Context

In 2016, the Financial Stability Board (FSB) published Guidance on Arrangements to support Operational Continuity in Resolution. In addition, the European Commission (EC) published the Delegated Regulation that complements regulatory technical standards (RTS) specifying the content of recovery plans and resolution plans.

In this context, the EBA has published the **consultation paper (CP) on draft Guidelines on resolvability**, which are based on existing international standards as set out by the FSB and leverage the current practices in place in the EU, in particular within the Banking Union, with the aim to complement the existing legal framework.

### 2. Main points

- **Minimum requirements relating to structure and operations.**
  - Operational continuity. Institutions should have operational arrangements to ensure the continuity of services supporting critical functions and core business lines needed for the effective execution of the resolution strategy and any consequent restructuring.
  - Access to Financial Market Infrastructure (FMI)s. Institutions should have arrangements in place to ensure continued access to clearing, payment, settlement, custody and other services provided by FMIs.
  - Governance in resolution planning. Institutions should appoint a member of the management body that is responsible for the (internal) work on resolution planning and to ensure the implementation of the resolvability work programme.
- **Minimum requirements relating to financial resources.** Institutions should demonstrate their ability to measure and report their liquidity position at short notice and have capabilities to perform liquidity analysis of current positions at the level of material entities and of the group for material currencies.
- **Minimum requirements relating to information systems.**
  - Information systems testing. These guidelines introduce a number of requirements for institutions to be able to provide relevant information to resolution authorities in a timely manner.
  - Information systems for valuation. Institutions should have capabilities to support the timely provision of valuation data at a sufficient level of granularity to enable valuations to be performed within a suitable timeframe.
- **Minimum requirements relating cross-border issues.** Institutions should be able to provide a list of contracts concluded under third country law. This list should identify the counterparty, the obligations for the institutions and whether the contract is being exempted from contractual recognition or it has included the contractual recognition terms for bail in and stay powers.
- **Resolution implementation.** Institutions, in cooperation with resolution authorities, should demonstrate testing and operationalisation capabilities in relation to: i) bail-in execution; ii) restructuring; iii) governance; and iv) communication.

### 3. Next steps

- The final guidelines will be published **by first half 2021**.
- Institutions and authorities should comply in full by **1 January 2024**.

05/03/2021

## GL on money laundering and terrorist financing risk factors

### 1. Context

In 2015, the European Parliament (EP) and the Council published Directive on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing (ML/TF). This Directive mandate the EBA to issue Guidelines addressed to both competent authorities (CA) and to credit and financial institutions on the risk factors to be considered and the measures to be taken in situations where simplified customer due diligence and enhanced customer due diligence are appropriate.

In this context, the EBA has published its **final revised Guidelines on ML/TF risk factors** which set out the factors that firms should consider when assessing the ML/TF risk and support CAs' AML/CFT supervision efforts when assessing the adequacy of firms' risk assessments and AML/CFT policies and procedures.

### 2. Main points

- **General Guidelines.** They are designed to equip firms with the tools they need to make informed, risk-based decisions when identifying, assessing and managing ML/TF risk associated with individual business relationships or occasional transactions. This Guidelines include key principles applicable to all firms related to:
  - Identifying ML/TF risk factors
  - Assessing ML/TF risk
  - Customer due diligence measures to be applied by all firms
  - Record-keeping
  - Training
  - Reviewing effectiveness
- **Specific Guidelines.** Complements the generic guidelines and sets out risk factors that are of particular importance in certain of specific sectors and provides guidance on the risk sensitive application of customer due diligence measures by firms in those sectors. This guidelines include the guidelines for the following firms:
  - Correspondent relationships
  - Retail banks
  - Electronic money issuers
  - Money remitters
  - Wealth management
  - Trade finance providers
  - Life insurance undertaking
  - Investment firms
  - Providers of investment funds
  - Regulated crowdfunding platforms
  - Payment initiation service providers (PISPs) and account information service providers (AISPs)
  - Firms providing activities of currency exchange offices
  - Corporate finance

### 3. Next steps

- These GL will apply **three months** after publication in all EU official languages.
- The deadline for competent authorities to report whether they comply with the guidelines will be **two months** after the publication of the translations.





02/03/2021

## CP on draft ITS on Pillar 3 disclosures on ESG risks

### 1. Context

Under the Capital requirements regulation (CRR), the EBA must develop draft implementing technical standards (ITS) specifying the requirements to disclose prudential information on environmental, social and governance risks (ESG) and climate change risks, including transition and physical risk.

In this context, the EBA has published **Consultation Paper (CP) on draft ITS on Pillar 3 disclosures on ESG risks** with the strategic objective of defining a single, comprehensive Pillar 3 framework under the CRR that should integrate all the relevant disclosure requirements.

### 2. Main points

This CP includes:

- **Quantitative disclosures on climate change transition risk.** Includes several templates through which institutions should show:
  - Their exposures towards non-financial corporates (NFCs) that operate in sectors that highly contribute to climate change, exposures towards fossil fuel counterparties and exposures towards counterparties that operate in other carbon related sectors.
  - Information on the energy efficiency of the underlying real estate collaterals, including loans collateralized by commercial and residential real estate, and repossessed real estate collaterals.
  - Information on their plans and potential methodology to implement disclosures on scope 3 emissions.
 When providing this information, institutions are asked to disclose quantitative data on the credit risk quality of the exposures and explain in the narrative accompanying the templates any implications that these exposures may have in terms of operational and liquidity risk for the institution.
- **Quantitative disclosures on climate change physical risk.** Includes template on Exposures in the banking book subject to climate change physical risk. This template includes information by sector of economic activity (NACE classification) and by geography.
- **Quantitative information on mitigation actions.** Includes templates with quantitative information on assets and exposures that are contributing and enabling climate change mitigation and adaptation by supporting institutions' helping them to mitigate their climate change transition and physical risks. These templates are:
  - Assets for the calculation of the Green Asset Ratio (GAR) which includes information necessary for the calculation of the GAR and other relevant KPIs.
  - GAR KPIs under which institutions shall disclose information on the percentage of their total assets covered by the GAR.
  - Other climate change mitigating actions.
- **Qualitative disclosures.** The disclosure requirements are organised by risk category: i) environmental; ii) social; and iii) governance. Under each risk category, the disclosure requirements target governance, business model and strategy, and risk management.

### 3. Next Steps

- Comments to this CP can be sent before **1 June 2021**.

19/02/2021

## GL on conditions for the application of the alternative treatment of institutions' exposures

### 1. Context

The market of repurchase transactions is a major source of short-term funding for institutions. Due to the amendment introduced by the CRR II, an institution may replace the total amount of its exposures to a collateral issuer due to tri-party repurchase agreements (tri-party repo) facilitated by a tri-party agent, using as an alternative treatment the full amount of the limits that the institution has instructed the tri-party agent to apply to the securities issued by that collateral issuer. This replacement must be conducted under certain conditions determined by the EBA.

In this context, and after the Consultation Paper launched in July 2020, the EBA has published the **Guidelines (GL) specifying the conditions for the application of the alternative treatment of institutions' exposures related to "tri-party repurchase agreements" for large exposures purposes** for those instances where an institution decides to make use of such possibility. The objective is to ensure a prudent and harmonized applications of the provisions provided within the CRR while keeping the approach simple, ensure a level playing field among institutions in the Union, and provide guidance to competent authorities (CAs) in their assessment of compliance.

### 2. Main points

- **Scope of application.** These GL will apply in relation to institutions' exposures to collateral issuers due to tri-party repos facilitated by a tri-party agent and are addressed to CAs and to financial institutions.
- **Governance arrangements.** These GL establish that institutions should ensure that:
  - The use of the alternative treatment is adequately documented in its policies and procedures.
  - Their management body oversees and monitors the implementation of the alternative treatment.
- **Verification of the establishment of appropriate safeguards by the tri-party agent to prevent breaches of the limits specified by the institution for the securities issued by the collateral issuer.** These GL set out that institutions must ensure minimum elements to be included in the service agreement (e.g. a clear description of the services provided by the tri-party agent with regard to collateral management including securities delivery), and that the content of the safeguards to be put in place by a triparty agent to ensure compliance with the specified limits by the institution includes that, among others, the tri-party collateral management is only performed in accordance with the duly signed service agreement.
- **Determination, revision and monitoring of the limits specified by the institution to the tri-party agent for the securities issued by the collateral issuer.**
  - Determination of the specified limits. Institutions should determine specific limits, expressed as an absolute amount or percentage value of all securities or a specific type of security in the collateral issuer's portfolio.
  - Revision of the specified limits and its frequency. Institutions should ensure that the service agreement includes the circumstances under which the specified limits could be revised and the frequency of their revision.
  - Monitoring of the specified limits and its frequency. Where institutions make use of the alternative treatment, they should verify that the systems that the tri-party agent has in place to monitor the collateral composition are adequate with regard to the accurate and timely management of the specified limits.
- **Ensuring compliance with the large exposure limits.** These GL establish that institutions should ensure that the use of the alternative treatment does not lead to a breach of the large exposure limits, and where a breach of the specified limits has occurred, the tri-party agent should inform the institution immediately of, among others, the name of the collateral issuer in relation with which the breach has occurred, and the date when the breach occurred.
- **Communication with CAs.** These GL set out that where an institution intends to make use of alternative treatment with a tri-party agent, it should notify ex-ante the CA. In this sense, the CAs should inform the institution within four weeks if it has any material concerns on the use of the alternative treatment (i.e. regarding the institution, the service agreement, and the tri-party agent), and institutions should not use the alternative treatment until the competent authority has satisfied itself that the institution has satisfactorily addressed any material concerns.

### 3. Next Steps

- These GL will apply from **28<sup>th</sup> June 2021**.



19/02/2021

## GL on large exposure limits ITS on disclosure of indicators of G-SIIs

### 1. Context

The EBA must issue guidelines and recommendations addressed to competent authorities (CA) or financial institutions with a view to establishing consistent, efficient and effective supervisory practices within the European System of Financial Supervision, and to ensuring the common, uniform and consistent application of Union law. Also, the EBA must develop draft implementing technical standards (ITS) specifying uniform disclosure formats, and associated instructions in accordance with which the disclosures required of the CRR.

In this context, the EBA has launched the **Consultation Paper (CP) on Guidelines specifying the criteria to assess the exceptional cases when institutions exceed the large exposure limits** with the purpose to provide guiding principles to help CA to decide whether the exceptional circumstances leading to a breach of the large exposure limits would justify allowing an institution a limited period of time in which to comply with the limit. On the other side, the EBA has published the **final draft ITS on disclosure of indicators of global systemic importance by G-SIIs**. These standards help to identify which banks are GSIIs and specify the formats and instructions in accordance with which G-SIIs disclose the information required under the CRR.

### 2. Main points

CP on Draft Guidelines specifying the criteria to assess the exceptional cases when institutions exceed the large exposure limits of CRR

- **Large exposures.** The guidelines clarify that any breach of the large exposure limits of the CRR should always be considered as an exceptional case. To support CA in their assessment and harmonise the approach across the Single Market, the EBA has developed guidelines with criteria to assess such breaches. CA should consider at least the following three criteria, whether:
  - The breach was a rare event.
  - The institution could foresee the event when it had applied a proper and effective risk management.
  - It was caused by reasons beyond the institution's control.
 If the breach does not fulfil those criteria, the CA should not grant the institution more than three months to restore compliance with the large exposure limit. Likewise, the guidelines provide CA with a set of criteria to determine the appropriate time that they could grant institutions to return to compliance with the large exposure limits. When an institution is granted more than three months to comply with the limits, it should present a compliance plan to the CA with a number of measures.

Final draft implementing technical standards on disclosure of indicators of global systemic importance by G-SIIs

- **Indicators of G-SIIs.** As set out in CRR, G-SIIs shall disclose, on an annual basis, the values of the indicators used for determining their score in accordance with the identification methodology referred to in Directive (EU) on access to the activity of credit institutions and the prudential supervision of credit institutions. To facilitate the comparability of information, the implementing technical standards shall seek to maintain consistency of disclosure formats with international standards on disclosures. In particular, it is stipulated that Institutions shall:
  - Disclose information of the indicators used in their year-end Pillar 3 report.
  - Restate and republish the information of the indicators used in their first Pillar 3 report following the final submission of the indicator values to the relevant authorities, where the submitted figures are different respect to those disclosed in the year-end Pillar 3 report.

### 3. Next Steps

- The Guidelines on large exposures will apply from **1 March 2022**.
- This RTS on disclosure of indicators of global systemic importance by G-SIIs shall enter into force on the **twentieth day** following that of its publication in the Official Journal of the European Union.

03/02/2021

## 2021 EU-wide stress test exercise

### 1. Context

In March 2020, the EBA decided to postpone the EU-wide stress test exercise to 2021 to allow banks to focus on and ensure continuity of their core operations, including support for their customers. The objective of the EU-wide stress test is to provide supervisors, banks and other market participants with a common analytical framework to consistently compare and assess the resilience of EU banks and the EU banking system to shocks, and to challenge the capital position of EU banks. In November 2020, the EBA has published the Final methodology, draft templates and template guidance for the 2021 EU-wide stress test along with the key milestones of the exercise.

In this context, the EBA has launched the **2021 EU-wide stress test and released the macroeconomic scenarios and the final templates**. This year's EU-wide stress test will provide valuable input for assessing the resilience of the European banking sector. In parallel, the ECB also plans to conduct its own stress test for 53 banks it directly supervises but that are not included in the EBA-led stress test sample. This exercise will be consistent with the EBA's methodology and apply the same scenarios, while also including proportionality elements as suggested by the overall smaller size and lower complexity of these banks.

### 2. Main points

- **Sample.** The EU-wide stress test will be conducted on a sample of 50 EU banks (one more bank than initially planned) covering roughly 70% of total banking sector assets in the EU and Norway, as expressed in terms of total consolidated assets as of end 2019.
- **Scenarios.** The exercise is carried out on the basis of year-end 2020 figures, and the scenarios will be applied over a period of 3 years from end 2021 to end 2023.
  - Baseline scenario. The baseline scenario for EU countries is based on the projections from the national central banks of December 2020.
  - Adverse scenario. The banks have to apply the adverse scenario defined as a combined result of, inter alia, foreign demand shocks, financial shocks and domestic demand shocks in the EU. The most important shocks of the adverse scenario would lead to:
    - A **decline in EU real GDP by 3.6%** from 2020 to 2023, due to a long-lasting recession.
    - An **increase in the EU unemployment rate of 4.7%** within the same period.
    - A **falling Harmonised Index of Consumer Prices (HICP) in the EU**, with the adverse level being 1.5% lower than the baseline level in 2023.
    - A **decrease in residential property prices by 21.9%** below the baseline level by 2023, which corresponds to a cumulative fall in residential property prices over the scenario horizon by 16.1% at the EU aggregate level. The cumulative fall of commercial real estate prices from the starting point amounts to 31.2% for the EU due to a stronger impact of COVID-19 on the commercial real estate sector (home office and non-financial corporate insolvencies).
    - An **increase of long term rates by 53 bps** in aggregate EU terms at the 3 year horizon.
    - **Equity prices in global financial markets would fall by 50%** in advanced economies and by 65% in emerging economies in the first year.

### 3. Next Steps

- The EBA expects to publish the results of the exercise by **31 July 2021**.



05/02/2021

## Final Report on RTS on the content methodologies and presentation of disclosures under SFDR

### 1. Context

Following the adoption of the 2015 Paris Agreement on climate change and the United Nations (UN) 2030 Agenda for Sustainable Development, the European Commission (EC) has expressed in the Action Plan “Financing Sustainable Growth” its intention to clarify fiduciary duties and increase transparency in the field of sustainability risks and sustainable investment opportunities. Furthermore, the Sustainable Finance Disclosure Regulation (SFDR) was published in December 2019. This Regulation aims to provide greater transparency on the degree of sustainability of financial products to actually channel private investment towards sustainable investments while preventing green washing.

In this context, and after the consultation paper (CP) issued in April 2020, the ESAs have published the **Final Report on RTS on the content, methodologies and presentation of disclosures under SFDR** with the aim of strengthen protection for end-investors by improving Environmental, Social and Governance (ESG) disclosures to end-investors on the principal adverse impacts of investment decisions and on the sustainability features of a wide range of financial products. This will help to respond to investor demands for sustainable products and reduce the risk of greenwashing.

### 2. Main aspects

- **Entity level principal adverse impact reporting.** This RTS provides a specification for the content, methodology and presentation of the information in respect of the sustainability indicators in relation to adverse impacts on the climate and other environment-related adverse impacts in the field of social and employee matters, respect for human rights, anti-corruption and anti-bribery matters. In particular, this draft RTS includes the following aspects:
  - A mandatory reporting template to use for the statement on considering principal adverse impacts of investment decisions on sustainability factors, as well as the actions taken and planned to mitigate these impacts.
  - A set of indicators for both climate and environment-related adverse impacts and adverse impacts in the field of social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.
  - A statement to be published where adverse impacts of investment decisions are not considered by financial market participants and advisers on their websites.
  - Requirements for financial advisers in line with their obligations.
- **Product-level pre-contractual disclosures of environmental or social characteristics and sustainable investment objectives.** This RTS set out the details of the content and presentation of the information to be disclosed at the pre-contractual level in the sectoral documentation. In particular, this draft RTS includes the following aspects:
  - A requirement to use a mandatory reporting template for the presentation of pre-contractual disclosure.
  - A list of items to be included in the reporting indicating clearly the type of product and how the environmental or social characteristic (or combination thereof) or the sustainable investment objective of the product are achieved.
  - Additional items of disclosure where the product designates an index as a reference benchmark.
  - Requirements for products making sustainable investments regarding how the product complies with the do not significantly harm principle in relation to the principal adverse impact indicators.
- **Product-level website disclosures.** This RTS set out the details of the content and presentation of information to be publicly disclosed on the website by the financial market participant. In particular, this draft RTS includes the following aspects:
  - Set out where and how the financial market participant must publish the information on the website.
  - A list of items to be included in the disclosure, focusing on the methodology employed, the data sources used, and any screening criteria employed.
  - Requirements for products making sustainable investments regarding how the product complies with the do not significantly harm principle in relation to the principal adverse impact indicators.
- **Product-level periodic disclosures.** This RTS set out the details of the content and presentation of information to be disclose. In particular, this draft RTS includes the following aspects:
  - A requirement to use a mandatory reporting template for the presentation of the periodic disclosure.
  - A list of items to be included in the reporting, focusing on the success of the product in attaining its environmental or social characteristic (or combination thereof) or sustainable investment objective.
  - Requirements for products making sustainable investments regarding how the product complies with the do not significantly harm principle in relation to the principal adverse impact indicators.

### 3. Next steps

- The EC is expected to endorse the RTS within. **3 months of their publication.**
- The ESAs have proposed in these draft RTS that the application date of the RTS should be **1 January 2022.**

20/01/2021

## Final Report on the draft ITS under the FICOD on reporting templates for IGT and RC

### 1. Context

In December 2002, the European Parliament (EP) and the Council approved the Directive 2002/87/EC on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate (FICOD) in order to provide a framework regarding the solvency position and risk concentration, the intra-group transactions, the internal risk management processes, and the fit and proper character of the management at conglomerate level.

In this context, and after the consultation paper published in May 2019, the ESAs have submitted to the European Commission the **Final Report on the draft ITS under the FICOD on reporting templates for intra-group transactions and risk concentration**. The harmonisation of the intra-group transactions and risk concentration templates for conglomerates aim to align the reporting under FICOD in order to enhance supervisory convergence on group specific risks, in particular contagion risk. The draft ITS provide the foundation for the harmonisation of reporting, with one single set of templates and common definitions and instructions to fill in the templates.

Along with this draft ITS, the ESAs also issued annex I (templates on reporting on intragroup transactions) and annex II (instructions) to align the reporting under FICOD.

### 2. Main aspects

- **Scope and frequency.** This draft ITS establishes that:
  - Regulated entities or mixed financial holding companies may be requested by the coordinator (i.e. appointed from among the competent authorities involved) to submit information regarding significant risk concentration and significant intra group transactions more frequently than on an annual basis or to submit information on an ad hoc basis. Further, they shall ensure that the data reported are consistent with the data submitted under the requirements of the relevant sectoral legislation.
  - Corrections to the data shall be submitted to the coordinator without undue delay.
  - The coordinator, after consultation with the relevant competent authorities, shall specify the type of transactions regulated entities or mixed financial holding companies shall report.
- **Format of reporting on significant risk concentration.** This draft ITS sets out that regulated entities or mixed financial holding companies shall submit information as specified in templates 6 to 8 of annex I (i.e. exposures by counterparties; exposure by currency, sector and country; and exposure by asset class and rating) according to the instructions of annex II. Moreover, in order to report information on how conflicts of interests and risks of contagion at the level of the financial conglomerate regarding significant intra-group transactions are managed regulated entities or mixed financial holding companies shall submit information to the coordinator.
- **Format of reporting on significant intra-group transactions.** This draft ITS establishes that regulated entities or mixed financial holding companies shall submit information as specified in templates 0 to 5 of annex I (i.e. summary; equity-type transactions, debt and asset transfer; derivatives; off-balance sheet and contingent liabilities; insurance-reinsurance; and P&L) according to the instructions of annex II.
- **Transmission.** This draft ITS sets out that regulated entities or mixed financial holding companies shall submit the above-mentioned information in the data exchange formats specified by the coordinator (e.g. it should be applied the reporting currency used for the preparation of the consolidated financial statements).

### 3. Next steps

- The proposed date of entry into force of the draft ITS is **1 January 2022**.





# Publications of the quarter

## Local publications

25/03/2021

### Proyecto de 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, the BoS has launched the public consultation on the draft circular on model confidential statements on market conduct, transparency and customer protection and on the register of complaints, with the aim of establishing the content and frequency of the information to be submitted.

#### 2. Main aspects

- **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. A minimum sectorization scheme is included in the states reserved for 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. Institutions shall take the utmost care in the preparation of their reserved statements, in order to avoid rectifications after they have been sent to the BoS.
- **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, 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.

#### 3. Next steps

- Comments to this public consultation can be submitted until **19 April 2021**.

03/02/2021

## Consulta pública del Proyecto de circular por la que se modifica la Circular 2/2016, de 2 de febrero, a las entidades de crédito, sobre supervisión y solvencia

### 1. Context

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. Furthermore, 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. For its part, 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 launched the public consultation of the **draft Circular on supervision and solvency of credit institutions** with the aim of developing certain aspects of the macroprudential tools that the current legislation makes available to 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 aspects

- **Countercyclical capital buffer.** This draft Circular regulates the establishment 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. For the activation and determination of the countercyclical buffer on specific 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 (evolution and specialized imbalance measures for each sector).
  - Sectoral macro-financial imbalance indicators (indebtedness, net wealth, financing capacity or need, savings rate, and consumption and investment gaps, among others).
- **Sectoral limits on the concentration of exposures.** Two additional sectors have been added to include exposures to the financial sector in the sectoral segmentation of the credit portfolio. Sector concentration is defined in terms of the weight that such exposure has on the institution's CET1, so that an absolute limitation on exposures is not established, but depends on the institutions' resources to cover potential losses. These limits may be required for a specific sector, or for several of them jointly, and may be in force together with other macroprudential tools. The operation of this tool involves the specification of certain temporary thresholds that institutions may not exceed. To determine the risk thresholds, the BoS will take into account, among others, the following criteria:
  - The evolution of the aggregate exposure in each sector.
  - Its historical weight in the total exposure portfolio and its recent evolution.
  - Its relevance in GDP and sector value added.
  - Its weight in the aggregate CET1.
- **Establishment of conditions on the granting of loans and other transactions.** The BoS may, among other measures, set limits on the maximum indebtedness that a borrower may obtain:
  - Given the collateral provided (loan to value).
  - Considering the available income that can be used to pay its debt (debt service to income).
  - Based on the level of debt to income (debt to income).
  - Given the term to maturity of the operation.

These limits may be activated individually or jointly, and may be in force simultaneously with other macroprudential instruments. Likewise, these limits may be different for certain groups, both in the case of individuals and legal entities. Likewise, the measures may consider a certain percentage of loans to be excluded from the limitations.

### 3. Next steps

- Comments to this public consultation can be submitted until **February 23, 2021**.

03/02/2021

## Circular 12021 y Circular 22021

### 1. Context

In 2015, the BoS published Circular 8/2015 on information to determine the bases for calculating contributions to the Deposit Guarantee Fund (FGD) for credit institutions. Furthermore, in 2020, the Ministerial Order regulating revolving credit was published, which introduced a series of new features that affect both the regulation of the Central Credit Register (CIR) and the official reference interest rates.

In this context, the BoS has published **Circular 1/2021** with the aim of incorporating new regulations introduced by the Ministerial Order of revolving credit. The BoS has also published **Circular 2/2021** with the aim of introducing amendments relating to information on cash deposits and on the recording of deposits received.

### 2. Main aspects

#### Circular 1/2021

- **Amendments relating to the CIR.** Amendments are included to improve the volume and immediacy of information provided to reporting institutions to enable them to make a more robust assessment of the creditworthiness of their customers.
  - The amount of the accumulated risk of a holder in an institution is reduced from 9,000 to 1,000 euros, which will be included in the information that the BoE will return to the institutions for the assessment of their customers' solvency.
  - A maximum time limit for making return information available to reporting institutions and real estate credit intermediaries is included, which will be the 21st day of each month.
  - Payment institutions and electronic money institutions are added as reporting entities to the CIR.
  - The scope of the information to be sent to the CIR by the new reporting institutions is determined, which will coincide with the reduced reporting model that already applies to real estate lenders and credit institutions operating under the freedom to provide services.
- **Amendments in reference interest rates.** A number of changes are introduced to increase the choice of official interest rates available to institutions, both for use in lending and as a substitute in such contracts.
  - Four indices based on different maturities of the Euribor (one-week, one-month, three-month and six-month), another based on the Euro short-term rate (€STR) and any other index expressly established for this purpose by resolution of the General Secretariat of the Treasury and International Finance are added.

#### Circular 2/2021

- **Amendments relating to the reporting of institutions attached to the FGD.** Amendments are introduced concerning the reporting of cash deposits and the recording of deposits received.
  - The minimum frequency with which institutions and branches must update, in the detailed register of deposits received, the information relating to the balances held by investment firms in cash and cash-in-transit accounts opened at the institution or branch attached to the FGD, in the name of the investment firm on behalf of its clients, is amended.
  - The annex on Information for determining the basis for calculating contributions to the FGD is amended by the inclusion of a template including the breakdown by country of residence of branches of eligible and guaranteed deposits.

### 3. Next steps

- The Circular 1/2021 has come into force on the **day of its publication** in the BOE.
- The Circular 2/2021 will enter into force on **30 June 2021**.



17/03/2021

## Real Decreto 5/2021, de medidas extraordinarias en respuesta a la pandemia de COVID-19

### 1. Context

The COVID-19 epidemic has caused a significant reduction in the income of many non-financial companies. In order to protect the production system and avoiding a structural impact, in the past few months different packages of measures have been adopted to support companies and the self-employed.

In this context, the Government has approved the Royal Decree-Law 5/2021, on extraordinary measures to support business solvency in response to the COVID-19 pandemic. The aim of this is to establish a framework for agile action to avoid a negative impact on public finances and the balance sheets of the financial system, as well as to avoid a negative structural impact that could hinder the recovery of the Spanish economy.

### 2. Main aspects

- **COVID line of direct aid to the self-employed and companies.** The self-employed and companies with registered office in Spanish territory, whose annual volume of operations in 2020 has fallen by at least 30% with respect to 2019 and whose activity is included in the National Classification of Economic Activities (CNAE) will be able to have access to direct aid. This line has an endowment of 7,000 million euros, of which 5,000 are for all the Autonomous Communities, except for the Balearic and Canary Islands, whose line is 2,000 million.
- **Line for the restructuring of COVID financial debt.** These measures are complementary to those adopted so far, such as the lines of guarantees channeled through the Official Credit Institute (ICO). The measures contained in this line, articulate 3 levels of possible action around the financing guaranteed, to reinforce business solvency:
  - An extension of the maturity terms of financing operations that have received a public guarantee.
  - Maintenance of the public guarantee in the event of the conversion of outstanding principal operations into financing operations with a public guarantee.
  - Transfers to companies and the self-employed for the reduction of guaranteed financing incurred during the pandemic.

These aids will be financed from a new COVID financial debt restructuring line, provided with a maximum of 3,000 million euros.
- **Fund for the recapitalization of companies affected by COVID.** This fund is endowed with 1 billion euros and will provide support exclusively in the form of debt, equity and hybrid equity instruments, or a combination thereof, to non-financial companies experiencing temporary difficulties as a result of the COVID-19 pandemic.

### 3. Next steps

- This Royal Decree-law has entered into force **the same day that of its publication** in the Official Journal (BOE).



12/01/2021

## Real Decreto-Ley 36/2020 de la Administración Pública y del Plan de Recuperación

### 1. Context

Following the World Health Organisation's declaration of the international pandemic caused by COVID-19, the Member States of the European Union (EU) have rapidly taken coordinated emergency measures to protect the health of their citizens and prevent the collapse of the economy. In this regard, the European Council agreed on the creation of a European Recovery Instrument, which will involve 140 billion euros in transfers and loans for Spain for the period 2021-2026.

In this context, the Spanish Government has published **Royal Decree-Law 36/2020 approving urgent measures for the implementation of the Recovery, Transformation and Resilience Plan** with the aim of establishing the general provisions required to facilitate the programming, budgeting, management and implementation of actions that can be financed with European funds, in particular those coming from the European Recovery Instrument. The present royal decree law is applicable to the entities that integrate the Public Sector.

### 2. Main aspects

#### Circular 1/2021

- **Strategic Projects for Economic Recovery and Transformation (PERTE).** Projects of a strategic nature with a high capacity to drive economic growth, employment and competitiveness in the Spanish economy may be recognised as PERTE projects. The declaration of a project as a PERTE will be made at the proposal of the holder or holders of the department or departments responsible for the subject matter, accompanied by an explanatory report describing the planning of support and public-private collaboration measures and describing how they fit into the Plan for the Recovery, Transformation and Resilience of the Spanish Economy. The criteria for declaring a project as PERTE include:
  - To combine knowledge, experience, financial resources and economic actors.
  - That it has an important innovative character or contributes significant added value in terms of R&D&I.
  - It is quantitatively or qualitatively important, particularly large in size or scope, or involves a very high level of technological or financial risk.
- **State register of entities interested in PERTE.** The State Register of Entities interested in the PERTE is created under the Ministry of Finance. All the entities linked to the development of an PERTE will be registered in this register, regardless of their public or private legal nature and the way they are constituted. Registration in the register may be considered a necessary requirement to be a beneficiary of grants.
- **Common process standards for accreditation as a PERTE.** The regulation of each PERTE must include the definition and scope of the process and ensure the principles of publicity, equality and non-discrimination.
- **New technologies as management tools for the Recovery, Transformation and Resilience Plan.** The creation of a single web portal is envisaged as an instrument capable of centralising and coordinating the distribution of all the information on this Plan to the various stakeholders and agents related to it.

### 3. Next steps

- This Royal Decree Law has come into force on the **day of its publication in the BOE.**







16/02/2021

## 2021 Stress Test Scenarios

### 1. Context

The Fed's stress tests evaluate the resilience of large banks by estimating their losses, revenues, expenses and resulting capital levels under hypothetical recession scenarios into the future, with the aim to ensure that large banks are able to lend to households and businesses even in a severe recession. In 2020, the Fed ran two separate stress tests to assess the strength of large banks. The Fed found that large banks were generally well capitalized under a range of hypothetical events.

In this context, the Fed has released the **hypothetical scenarios for its 2021 bank stress tests** which describes two supervisory scenarios (baseline and severely adverse) that the Fed will use to conduct its 2021 stress tests. This publication also details additional components (e.g. the global market shock component and the counterparty default component) that the largest and most complex firms must incorporate into the supervisory scenarios.

### 2. Main aspects

- **General aspects.** The scenarios start in the first quarter of 2021 and extend through the first quarter of 2024. Each scenario includes 28 variables which are the same as the set of variables provided in the last year's supervisory scenarios. The variables describing economic developments within the US include:
  - Six measures of economic activity and prices (e.g. percent changes in real and nominal GDP).
  - Four aggregate measures of asset prices or financial conditions (e.g. indexes of house prices).
  - Six measures of interest rates (e.g. the rate on 3-month Treasury bills).
- **Baseline Scenario.** The baseline scenario for the US is an economic expansion over the 13-quarter scenario period. Quarterly real GDP growth averages 4 percent (annual rate) in 2021, slows to 2,5% by the end of 2022, and slows further to about 2,25% at the end of the scenario period. The unemployment rate declines gradually from 6,75% at the end of 2020 to 4,5% at the end of the scenario period. Quarterly CPI inflation is relatively steady over the 13-quarter period, ranging from 1,75% to 2,25% at an annual rate. Accompanying the economic expansion, short-term Treasury rates are assumed to gradually rise from 0% to 0,75% by the end of the scenario period.
- **Severely Adverse Scenario.** Under the severely adverse scenario, the US unemployment rate climbs to a peak of 10,75% in the third quarter of 2022, a 4 percentage point increase relative to its fourth quarter 2020 level. Real GDP falls 4% from the fourth quarter of 2020 to its trough in the third quarter of 2022. The decline in activity is accompanied by lower CPI inflation, which quickly falls to an annual rate of about 1% in the second quarter of 2021 and stays at that level for another quarter before gradually rising to 2,25% by the end of the scenario period. In line with the sharp decline in real activity, the 3-month Treasury rate remains near zero throughout the scenario.
- **Global Market Shock Component.** The global market shock is a set of hypothetical shocks to a large set of risk factors reflecting general market distress and heightened uncertainty. Firms with significant trading activity must consider the global market shock as part of their supervisory severely adverse scenario and recognize associated losses in the first quarter of the projection horizon.
- **Counterparty Default Component.** Firms with substantial trading or custodial operations will be required to incorporate a counterparty default scenario component into their supervisory severely adverse stress scenario for 2021 and recognize associated losses in the first quarter of the projection horizon. This component involves the unexpected default of the firm's largest counterparty.



16/02/2021

## Consultation Paper 5/21 on Implementation of Basel standards

### 1. Context

In response to the financial crisis of 2008, the Basel Committee on Banking Supervision (BCBS) agreed a series of reforms to the financial services regulatory framework intended to enhance the resilience of internationally active banks, known as the Basel III standards. Some of the standards were implemented into EU law and subsequently converted into UK law during the transition period for the UK's exit from the EU. However, some Basel III standards were not implemented in the EU before the end of the transition period and so remain to be implemented in the UK.

In this context, the PRA has published the **Consultation Paper (CP) 5/21 on Implementation of Basel standards** which sets out the PRA's proposed rules in respect of the implementation of Basel III in the UK through a new PRA Capital Requirements Regulations (CRR) rule instrument, which is based on the European CRR (the unchanged parts are not included in the CP).

### 2. Main aspects

- **Scope of application.** This CP applies to banks, building societies and investment firms.
- **Market risk.** The PRA proposes to adopt the BCBS Fundamental Review of the Trading Book, thereby updating the requirements for the trading book and on allocating positions to the trading book and the non- trading book.
- **Collective investments undertakings (CIUs).** The PRA proposes implementation of the Basel III capital requirements for firms' equity exposures to CIUs in the non-trading book. In particular, to introduce Standardised Approach and Internal Ratings Based Approach to Credit Risk (IRB).
- **Counterparty credit risk.** The Basel III standards specify that the counterparty credit risk exposures (SA-CCR) be implemented by firms that do not use the Internal Models Method (IMM) and also revise the methodology for calculating capital requirements for firms' exposures to a qualifying CCP (QCCP). The PRA proposes to implement the SA-CCR, as well as these revised standards in PRA rules.
- **Operational risk.** The PRA has identified an ambiguity in the calculation used for the Business Indicator Approach (BIA) and proposes to amend the methodology to make explicit the treatment of leasing assets.
- **Liquidity coverage ratio (LCR).** The BCBS introduced the LCR requirement to ensure that firms have an adequate stock of unencumbered liquid assets. In this sense, the PRA proposes to replicate in PRA rules the LCR requirements of the CRR and Delegated Acts with the objective of promoting firms' short-term liquidity resilience.
- **Net stable funding ratio (NSFR).** The BCBS introduced the NSFR to help ensure that firms maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. To ensure the framework remains proportionate for smaller firms, the PRA proposes to introduce a simplified NSFR for small and non-complex institutions.
- **Reporting and disclosure.** In order to maintain the continued relevance of the reporting requirements contained in the local version of COREP and FINREP, the PRA proposes to incorporate these reporting requirements into PRA rules. In addition, the PRA proposes to incorporate all Pillar 3 requirements to create a single source of disclosure requirements for UK firms.

### 3. Next steps

- Comments to this CP can be submitted until **3 May 2021**.

22/01/2021

## Stress testing the UK banking system: 2021 Key elements and stress test guidance

### 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 December 2020, the Financial Policy Committee (FPC) judged that UK banks, in aggregate, have capital buffers that allow them to lend in, and remain resilient to, a wide range of possible outcomes for the UK and global economies. In 2021 the solvency stress test will be carried out with the aim of update and refine this assessment of the FPC.

In this context, the PRA has published the **Key elements of 2021 stress test** which will help to ensure that risks identified by supervisors of individual banks are reflected in the scenario. Moreover, the PRA has published a Guidance for participating banks for conducting their own analysis for the 2021 stress test.

### 2. Main aspects

#### Stress testing the UK banking system: key elements of the 2021 UK stress test scenarios

- **Key features of the 2021 solvency stress-test scenario.**
  - Summary of the stress-test scenario. The PRA poses a severe path for the economy in 2021–25 on top of the economic shock associated with the COVID-19 pandemic. The UK stress incorporates a second dip on top of that seen in 2020, with GDP falling sharply again at the beginning of 2021. The scenario shows cumulative UK GDP losses of 37% when combined with the shocks already seen in 2020 and incorporates large property price falls and a significant rise in unemployment. Also, the traded risk stress will be consistent with the macroeconomic scenario, but there will be no separate traded risk scenario and Banks will be assessed against known misconduct costs.
  - UK lending in the stress. An important macroprudential goal of the stress test is to help the FPC assess whether the banking system is sufficiently well capitalised to support the real economy in the face of severe adverse shocks. The importance of this goal has been particularly apparent over the course of 2020 following the outbreak of COVID-19.
  - Quantitative review. There will be two components to the 2021 exercise: i) a delivery assessment, which focuses on submission quality across the different risk areas; and ii) a review of progress addressing Bank feedback from the 2019 annual cyclical scenario (ACS) qualitative review, when participating banks were assessed against the Basel Committee on Banking Supervision stress-test principles.

#### Stress testing the UK banking system: 2021 guidance for participating banks and building societies

- **Banks participating in the 2021 stress test.** The 2021 stress test will cover eight major UK banks and building societies: Barclays, HSBC, Lloyds Banking Group, Nationwide, NatWest Group, Santander UK Group Holdings, Standard Chartered and Virgin Money UK.
- **Scope of consolidation.** The scope of consolidation is the perimeter of the banking group as defined by the Capital Requirements Regulation (CRR)/Capital Requirements Directive V, which includes investment banks.
- **Time horizon and reference data.** The 2021 stress test will cover a five-year horizon. Banks are expected to submit projections as at 31 December for each subsequent year-end unless agreed otherwise with the Bank.
- **Guidance on modelling risks and income.** This document provides guidance on the following aspects: balance sheet modelling, credit risk and IFRS 9, traded risk, structured finance, interest income and interest expense, other income and costs, operational risks and misconduct costs, pension risk, Foreign Exchange Rate Movements (SFX), Contingent leverage risk to the leverage ratio, and UK impact.
- **Management actions and mandatory distribution restrictions.** Banks are asked to consider what realistic strategic and business-as-usual management actions could be taken in response to the stress scenario; and should submit a description of all material business-as-usual actions.
- **Qualitative review.** In 2021 the BoE will carry out a Delivery Assessment with an additional review of firms' progress against feedback from the 2019 qualitative review.

### 3. Next steps

- The projections for credit impairments and credit risk-weighted assets should be submitted by participating banks and building societies to BoE by **April 2021**.
- The additional stressed projections will be submitted in June, as usual, with bank-specific results published in **2021 Q4**.





# Other publications of interest

## Capital, liquidity and leverage

### BANK SERVICES

[\(14/01/2021\) OCC – OCC Finalizes Rule Requiring Large Banks to Provide Fair Access to Bank Services, Capital, and Credit](#)

The Office of the Comptroller of the Currency (OCC) has released its finalized rule to ensure fair access to banking services provided by large national banks, federal savings associations, and federal branches and agencies of foreign bank organizations. The rule states that banks should conduct risk assessment of individual customers, rather than make broad-based decisions affecting whole categories or classes of customers, when provisioning access to services, capital, and credit.

### ASSET ENCUMBRANCE

[\(18/01/2021\) EBA – EBA observes an increase in the asset encumbrance ratio amidst extensive use of central bank facilities](#)

The EBA published its annual report on Asset Encumbrance. The main conclusions of the report are: i) that as COVID-19 spread across Europe and activity in primary markets froze, banks made extensive use of central bank liquidity facilities to build precautionary liquidity buffers; ii) that the extensive use of the extraordinary central bank liquidity facilities in 2020 has driven up the share of central bank funding over total sources of encumbrance; and iii) almost half of total central bank eligible assets were encumbered in June 2020.

### CAPITAL

[\(19/01/2021\) Fed – Federal Reserve Board finalizes a rule that updates the Board's capital planning requirements to be consistent with other Board rules that were recently modified](#)

The Federal Reserve Board (Fed) has finalized a rule that updates the Board's capital planning requirements to be consistent with other Board rules that were recently modified. The rule reflects a framework that sorts large banks into different categories based on their risks, with requirements that are tailored to the risks of each category. In particular, firms in the lowest risk category are on a two-year stress test cycle and not subject to company-run stress test requirements.

### INVESTMENT FIRMS

[\(21/01/2021\) EBA – EBA publishes final draft technical standards to identify investment firms' risk takers and to specify the instruments used for the purposes of variable remuneration](#)

The European Banking Authority (EBA) has published two final draft Regulatory Technical Standards (RTS) on (i) the criteria to identify all categories of staff whose professional activities have a material impact on the investment firm's risk profile or asset it manages and (ii) on the classes of instruments that adequately reflect the credit quality of the investment firm and possible alternative arrangements that are appropriate to be used for the purposes of variable remuneration.

### CAPITAL BUFFERS

[\(21/01/2021\) PRA – Capital buffers and Pillar 2A: Modification by Consent and Model Requirements](#)

The Prudential Regulation Authority (PRA) has published a direction for modifications by consent of several aspects related to de application on an individual and consolidated bases of the Capital Buffers Part of the PRA rulebook.

### STRESS TEST

[\(25/01/2021\) EBA – EBA announces timing for the launch of its 2021 EU-wide stress test exercise](#)

The European Banking Authority (EBA) will launch its 2021 EU-wide stress test exercise with the publication of the macroeconomic scenarios on 29 January at 18:00 CET. The EBA expects to publish the results of the exercise by 31 July 2021

### INSURANCE STRESS TEST

[\(26/01/2021\) EIOPA – Second paper on the methodological principles of insurance stress testing: liquidity component](#)

The European Insurance and Occupational Pensions Authority (EIOPA) has published the second paper in a series of papers on the methodological principles of insurance stress testing. In particular, the paper sets out methodological principles that can be used to design bottom-up stress test exercises to assess the vulnerability of insurers to liquidity shocks. The conclusions are based on the current understanding and knowledge of the liquidity risk in the insurance industry. Hence, this might evolve in the future to reflect also the experience gained in the assessment of such risk at European and global level.

# Other publications of interest

## Capital, liquidity and leverage

### SFTs

[\(26/01/2021\) BCBS – Technical amendment on the minimum haircut floors for securities financing transactions](#)

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

### SOLVENCY II

[\(28/01/2021\) EIOPA – EIOPA publishes annual report on the use of capital add-ons under Solvency II](#)

The European Insurance and Occupational Pensions Authority (EIOPA) has published its annual Report on the use of capital add-ons during 2019. The objective of the capital add-on measure is ensure that the regulatory capital requirements reflect the risk profile of the undertaking or of the group. This analysis included in the report is based on 2019 year-end data collected under Solvency II as reported by the undertakings and insurance groups and complemented by a survey that entailed both qualitative and quantitative questions.

### ECAI

[\(29/01/2021\) ESAs – ESAs consult to amend technical standards on the mapping of ECAIs' credit assessments](#)

The Joint Committee of the ESAs has launched a public consultation to amend the Implementing Regulations on the mapping of credit assessments of External Credit Assessment Institutions (ECAIs) for credit risk. The amendments are needed to assign mappings for two newly established ECAIs and to reflect the outcomes of a monitoring exercise on the adequacy of existing mappings, namely changes to the Credit Quality Steps (CQS) allocation for two ECAIs and the introduction of new credit rating scales for nine ECAIs.

### FINANCIAL CREDIT INSTITUTIONS

[\(08/02/2021\) BdE - Consulta pública previa sobre un proyecto de circular a los establecimientos financieros de crédito sobre liquidez, normas prudenciales y obligaciones de información](#)

The BoS has published a prior public consultation on a draft circular to financial credit institutions on liquidity, prudential rules and reporting obligations. The purpose of this circular is to complete: (i) the solvency rules for credit financial institutions regarding liquidity; the reporting obligations regarding solvency and shareholding structure; (iii) the guarantees that may be required from a person from a non-EU Member State that will exercise control of a credit financial institution; and (iv) the specific cases in which credit financial institutions must carry out the IAC and the BoS the SREP.

### CAPITAL INTERNAL MODELS

[\(09/02/2021\) PRA – PRA statement on supervisory benchmarking exercise relating to capital internal models](#)

The PRA has published an statement on supervisory benchmarking exercise relating to capital internal models. This statement provides greater clarity for credit institutions that are in scope of the PRA's 2021 supervisory benchmarking exercise for capital internal models. This exercise is designed to provide the PRA with specified information from firms in scope in relation to year-end 2020.



# Other publications of interest

## Capital, liquidity and leverage

### NSFR

[\(11/02/2021\) Fed/FDIC/OCC – Final Rule on NSFR: Liquidity Risk Measurement Standards and Disclosure Requirements](#)

The OCC, the Fed, and the FDIC are adopting a final rule that implements a stable funding requirement, known as the net stable funding ratio (NSFR), for certain large banking organizations. The final rule establishes a quantitative metric, the NSFR, to measure the stability of the funding profile of certain large banking organizations and requires these banking organizations to maintain minimum amounts of stable funding to support their assets, commitments, and derivatives exposures over a one-year time horizon.

### CECL

[\(15/02/2021\) FDIC – Final Rule to Address the Temporary Deposit Insurance Assessment Effects of the Optional Regulatory Capital Transitions for Implementing the CECL Methodology](#)

The FDIC Board of Directors has adopted a final rule addressing the temporary deposit insurance assessment effects resulting from certain optional regulatory capital transition provisions relating to the implementation of the current expected credit losses (CECL) methodology. The final rule removes the double counting of a specified portion of the CECL transitional amount or the modified CECL transitional amount, as applicable, in the calculation of certain financial measures that are used to determine assessment rates for large or highly complex insured depository institutions (IDIs).

### DEBT OR EQUITY INSTRUMENT

[\(19/02/2021\) EBA – EBA publishes final draft technical standards on indirect exposures arising from derivatives underlying a debt or equity instrument](#)

The EBA has published final draft regulatory technical standards (RTS) specifying how institutions should determine exposures arising from derivative and credit derivative contracts not entered directly into with a client but whose underlying debt or equity instrument was issued by a client. These draft RTS will ensure appropriate levels of consistency through different pieces of the regulatory framework for the calculation of large exposures.

### LIQUIDITY RISK

[\(08/03/2021\) IOSCO – IOSCO Reviews Implementation of Liquidity Risk Management Recommendations and Market Participants' Responses to COVID-19 Induced Market Stresses](#)

The IOSCO has launched its Thematic Review of the Recommendations for Liquidity Risk Management for Collective Investment Schemes. The Recommendations are meant to ensure that liquidity risk is managed to safeguard and protect the interests of investors, including in stressed market conditions during the COVID-19 induced market stresses of March and April 2020. They are also designed to address potential structural vulnerabilities in the asset management sector that could impact financial stability.

### DERIVATIVES

[\(09/03/2021\) PRA – CP6/21 - Margin requirements for non-centrally cleared derivatives: Amendments to BTS 2016/2251](#)

The PRA has published a Consultation Paper (CP) on Margin requirements for non-centrally cleared derivatives. This CP sets out the PRA and FCA proposals to establish or extend exemptions for some products subject to bilateral margining requirements, and to align implementation phases and thresholds to the BCBS and the IOSCO standards.

### DGSs

[\(11/03/2021\) – EBA launches public consultation on draft revised Guidelines on stress tests of Deposit Guarantee Schemes \(DGSs\)](#)

The EBA has launched a public consultation on its revised Guidelines on the stress tests conducted by national DGSs under the Deposit Guarantee Schemes Directive (DGSD). The proposed revision will extend the scope of the DGS stress testing, by requiring more tests that will cover additional aspects of DGS interventions. The proposed framework will also achieve greater harmonisation and comparability, to enable the EBA to carry out a robust peer review of national DGS stress tests in 2024/25.

# Other publications of interest

## Capital, liquidity and leverage

### JTD AND RRAO

[\(12/03/2021\) EBA – EBA consults on technical elements for the implementation of the alternative standardised approach for market risk as part of its FRTB roadmap](#)

The EBA has launched two public consultations on its draft Regulatory Technical Standards (RTS) on gross jump-to-default (JTD) amounts and its draft RTS on residual risk add-on (RRAO). These draft RTS specify i) how gross JTD amounts are to be determined for the purposes of calculating the default risk charge for non-securitisation instruments, and ii) how to identify instruments exposed to residual risks for the purposes of the RRAO, under the alternative standardised approach for market risk.

### LCR

[\(15/03/2021\) EBA – EBA reports on the monitoring of the LCR implementation in the EU](#)

The EBA has published its second Report on the monitoring of liquidity coverage ratio (LCR) implementation in the EU. This Report highlights areas in which further guidance is deemed useful for banks and supervisors in order to foster a common understanding and harmonization of the application of the liquidity standards across the EU. The EBA will continue regularly monitoring the implementation of the LCR for EU banks and will update these reports on an ongoing basis to set out its observations and provide further guidance, where necessary.

### BASEL III

[\(16/03/2021\) EBA – The EBA will make its Basel III monitoring exercise mandatory](#)

The European Banking Authority (EBA) has published a decision, which will change the Basel III monitoring exercise from its current voluntary nature to a mandatory exercise from December 2021. This change stems from the need to expand the sample to more jurisdictions and credit institutions, making it more representative, as well as to reach a stable sample over time by providing authorities with a sound legal basis that frames institutions' participation.

### RISK WEIGHTED ASSETS

[\(15/03/2021\) EBA – EBA releases its annual assessment of the consistency of internal model outcomes for 2020](#)

The EBA has published two reports on the consistency of risk weighted assets (RWAs) across all EU institutions authorized to use internal approaches for the calculation of capital requirements for 2020. The reports cover credit risk for high and low default portfolios, as well as market risk. The results confirm that the majority of risk-weights variability can be explained by fundamentals. These benchmarking exercises are a fundamental supervisory and convergence tool to address unwarranted inconsistencies and restoring trust in internal models.





# Other publications of interest

## Supervision

### SUPERVISION

[\(12/01/2021\) BoE/PRA – CP2/21 - International banks: The PRA's approach to branch and subsidiary supervision](#)

The Prudential Regulation Authority's (PRA) has released a Consultation Paper (CP) which sets out the PRA's proposals regarding its approach to supervising the UK activities of PRA-authorized banks and designated investment firms that are headquartered outside of the UK or are part of a group based outside of the UK. In this CP, such firms are referred to as 'international banks. It therefore includes those firms operating in the UK through a branch. It also proposes expectations for receiving information concerning the risks in the wider group, and for co-operation from regulated entities and their supervisors, in order that it can be satisfied that firms are meeting threshold conditions.

### ESTABLISHMENT OF PARENT UNDERTAKINGS

[\(15/01/2021\) EBA – EBA consults on its new Guidelines on the monitoring of the threshold for establishing an intermediate EU parent undertaking](#)

The EBA launched public consultations on its new Guidelines on the monitoring of the threshold and other procedural aspects on the establishment of intermediate EU parent undertakings (IPU) as laid down in the Capital Requirements Directive (CRD). This guidance specifies the methodology to calculate the total value of assets in the Union of the third-country groups and clarifies how to monitor this value in order to meet the IPU requirement.

### SUPERVISORY GUIDANCE

[\(19/01/2021\) FDIC – FDIC Approves Rule on the Role of Supervisory Guidance](#)

The Federal Deposit Insurance Corporation (FDIC) approved a final rule outlining and confirming the agency's use of supervisory guidance for regulated institutions. The final rule codifies the interagency statement on the role of supervisory guidance, as amended, issued in September 2018 to clarify the differences between regulations and guidance.

### IFRS

[\(28/01/2021\) IASB – IASB proposes new IFRS Standard to give investors a more complete picture of the financial performance of rate-regulated companies](#)

The International Accounting Standards Board (IASB) has published proposals for a new accounting standard that would require companies subject to rate regulation to give investors better information about their financial performance. The proposed Standard would introduce a requirement for companies to give investors such information by reporting regulatory assets and regulatory liabilities in their balance sheet, and related regulatory income and regulatory expense in their income statement.

### MIFID II

[\(29/01/2021\) ESMA – ESMA consults on appropriateness and execution-only under MiFID II](#)

The ESMA has launched a consultation on guidelines on the application of certain aspects of the appropriateness and execution-only requirements under MiFID II. Under this regulation, investment firms, providing non-advised services are required to request information on the knowledge and experience of clients or potential clients to assess whether the investment service or product envisaged is appropriate, and to issue a warning in case the investment service or product is deemed inappropriate. The execution-only framework allows for an exemption to this assessment in certain conditions, including that the firm issues a warning to the client.

### MIFIR

[\(02/02/2021\) ESMA – ESMA publishes annual report on the application of waivers and deferrals for equity instruments](#)

The ESMA has published its Annual Report on the application of waivers and deferrals for equity instruments under MiFIR. The report includes an analysis based on waivers for equity and equity-like instruments for which ESMA issued an opinion to the competent authority in the period between 1 January and 31 December 2019. It also includes an overview of the deferral regime for equity and equity-like instruments applied across the different EU Member States.

### PRIIPs

[\(03/02/2021\) ESAs – EIOPA's Board of Supervisors agrees on changes to the PRIIPs key information document](#)

The ESAs submitted today to the European Commission the draft RTS on amendments to the key information document for packaged retail and insurance-based investment products (PRIIPs). This proposal is based on the further details provided by the European Commission on their approach to the broader review of PRIIPs Regulation, namely that the review will thoroughly examine the application of the PRIIPs framework.

# Other publications of interest

## Supervision

### SUPERVISION

[\(05/02/2021\) FCA – Supervision strategy for the retail banking portfolio](#)

The FCA has published the Supervision strategy for the retail banking portfolio that sets out its view of the key risks of harm that retail banks' activities are likely to pose over the next two years. The FCA has grouped these risks into four priority areas of focus: i) ensuring fair treatment of borrowers, including those in financial difficulties; ii) ensuring good governance and oversight of customer treatment and outcomes during business change over the next two years; iii) ensuring operational resilience over the next two years and beyond; and iv) minimising fraud and other financial crime.

### SUPERVISORY PRIORITIES

[\(08/02/2021\) CNMV – Informe sobre la supervisión por la CNMV de los informes financieros anuales del ejercicio y principales áreas de revisión de las cuentas del ejercicio siguiente. Ejercicio 2019](#)

The CNMV has published the "Report on the supervision by the CNMV of the annual financial reports for the fiscal year and main areas of review of the accounts for the following fiscal year. Fiscal year 2019". The document describes on the one hand the priority areas to which it will pay attention in the supervision of the 2020 annual accounts and on the other hand, it details the supervisory work carried out by the body in relation to the audited annual accounts for the 2019 financial year submitted by the companies.

### EIOPA RISK DASHBOARD

[\(09/02/2021\) EIOPA – Risk Dashboard: European insurers' macro risk exposures decreased, while concerns remain](#)

The EIOPA has published its Risk Dashboard based on the third quarter of 2020 Solvency II data. The results show that insurers' exposures to macro risks decreased from very high to high level, while all other risk categories remain at medium level. Going forward, European supervisors expect an increase in credit, market and underwriting risks over the next 12 months, reflecting concerns over second lockdowns due to new waves of the pandemic as well as potential cliff effects once fiscal support measures will be over.

### IFD

[\(11/02/2021\) EBA – EBA launches public consultation on the draft technical standards on supervisory disclosure under the Investment Firms Directive](#)

The EBA has launched a public consultation on its draft ITS on the information concerning the new prudential requirements that competent authorities will be required to disclose publicly for all types of investment firms authorised under the MiFID. The information that competent authorities will have to disclose every year covers supervisory approaches and aggregate statistical data on the new prudential requirements for investment firms. The first disclosure date under these draft ITS is set by 30 June 2022.

### BUSINESS MODEL SUSTAINABILITY

[\(19/02/2021\) EIOPA – Business model sustainability and adequate product design identified as new strategic supervisory priorities for national supervisors](#)

The EIOPA has published the business model sustainability and adequate product design as two Union-wide strategic supervisory priorities relevant for national competent authorities (NCAs). NCAs will focus their supervisory activities on monitoring the impact of the prolonged low-yield environment as well as of the COVID-19 crisis on the business model sustainability and development of insurers and institutions for occupational retirement provision (IORPs).

### SUPERVISORY GUIDELINES

[\(04/03/2021\) ESMA – Guidelines on disclosure requirements under the Prospectus Regulation](#)

The ESMA has published Guidelines on disclosure requirements under the Regulation on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market. The objectives of these Guidelines are to establish consistent, efficient and effective supervisory practices among competent authorities when assessing the completeness, comprehensibility and consistency of information in prospectuses.

# Other publications of interest

## Recovery and resolution

### MREL

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

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

### SRB MREL DASHBOARD

[\(11/02/2021\) SRB – SRB publishes Q3.2020 MREL dashboard](#)

The SRB has published its minimum requirement for own funds and eligible liabilities (MREL) dashboard covering the reporting period Q3 2020. Some key findings are that: i) the average BRRD1 MREL target, in percentage of the total risk exposure amount (TREA), rose by 0.6% from June to September, to 28.6% TREA; ii) after recording an increase in Q2.2020, the average MREL shortfall reduced to 1.9% TREA in Q3.2020; and iii) in Q3.2020, MREL issuances amounted to EUR 50.9 bn, a reduction of 42% (EUR 37.3 bn) in comparison to Q2.2020.

### TAXONOMY PRODUCT DISCLOSURES

[\(17/03/2021\) ESAs – ESAs consult on Taxonomy-related product disclosures](#)

The ESAs have published the Joint consultation paper on 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.

# Other publications of interest

## Reporting and disclosure

### REPORTING

[\(05/02/2021\) Fed/FDIC/OCC – Joint Notice on Proposed Agency Information Collection Activities](#)

The Fed, FDIC and OCC are requesting comment on revisions to the reporting forms and instructions for the Call Reports and the Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002) related to the exclusion of sweep deposits and certain other deposits from reporting as brokered deposits. In addition, the agencies are proposing revisions to the Call Report and FFIEC 002 instructions addressing brokered deposits to align them with the brokered deposits final rule. This consultation will be open until February 22, 2021.

[\(05/02/2021\) PRA – PRA Statement on Covid-19 regulatory reporting amendments](#)

The PRA has published a statement that sets out its approach to regulatory reporting for PRA-regulated UK banks, building societies, designated investment firms and credit unions in response to the current COVID-19 conditions. In particular, in this statement the PRA provides further guidance on submitting this year's annual submissions and other types of regulatory reporting. Consistent with the measures announced by the FRC and FCA, the PRA will accept a delay in the submission by UK banks and designated investment firms of their annual reports and accounts by up to two calendar months.

### NFRD

[\(01/03/2021\) ESMA – ESMA proposes rules for taxonomy–alignment of non-financial undertakings and asset managers](#)

The ESMA has published its Final Report on advice under Article regarding transparency of undertakings in non-financial statements of the Taxonomy Regulation, which covers the information to be provided by non-financial undertakings and asset managers to comply with their disclosure obligations under the Non-Financial Reporting Directive (NFRD). The recommendations define the Key Performance Indicators (KPIs) disclosing how, and to what extent, the activities of businesses that fall within the scope of the NFRD qualify as environmentally sustainable under the Taxonomy Regulation.

[\(01/03/2021\) EIOPA – EIOPA advises on insurers' key performance indicators on sustainability for non-financial reporting](#)

The EIOPA has submitted its advice to the EC on the mandatory sustainability disclosure of insurers' and reinsurers' key performance indicators within the scope of the NFDR. The objective is to set out relevant criteria for determining whether an economic activity qualifies as environmentally sustainable, in particular, in order to address market failures that hamper the identification of such economic activities and therewith, ultimately to remove barriers to the functioning of the internal market.

### REPORTING AND DISCLOSURE

[\(05/03/2021\) EBA – EBA issues new supervisory reporting and disclosures framework for investment firms](#)

The EBA published its final draft Implementing Technical Standards (ITS) on the supervisory reporting and disclosures of investment firms. These ITS set out the main aspects of the new reporting framework in relation to the calculation of own funds, levels of minimum capital, concentration risk, liquidity requirements and the level of activity in respect of small and non-interconnected investment firms.

### REPORTING

[\(11/03/2021\) – EBA launches discussion paper on integrated reporting](#)

The EBA has published a discussion paper on the feasibility study of an integrated reporting system to collect feedback for the preparation of its final Report in this area. The discussion paper outlines possible options around the main building blocks of a possible integrated system including a single data dictionary and single reporting system across supervisory, resolution and central bank statistical data. The consultation runs until 11 June 2021.

### FINANCIAL INFORMATION

[\(08/03/2021\) BdE – "Consulta pública de proyecto de circular, que modifica las circulares 4/2017, a entidades de crédito y 4/2019, a establecimientos financieros de crédito, sobre normas de información financiera pública y reservada, y modelos de estados financieros"](#)

The BdE has carried out a public consultation prior to the preparation of the draft BdE circular amending Circular 4/2017 and Circular 4/2019, in order to maintain the convergence of Spanish accounting regulations for financial institutions with the EU-IFRS framework, as well as with European standards and guidelines, update the alternative solutions for the collective estimation of credit risk loss allowances, and simplify the reserved statement requirements applicable to branches operating in Spain of foreign credit institutions whose head office is located in a member state of the European Economic Area.



# Other publications of interest

## Reporting and disclosure

### DISCLOSURE REQUIREMENTS

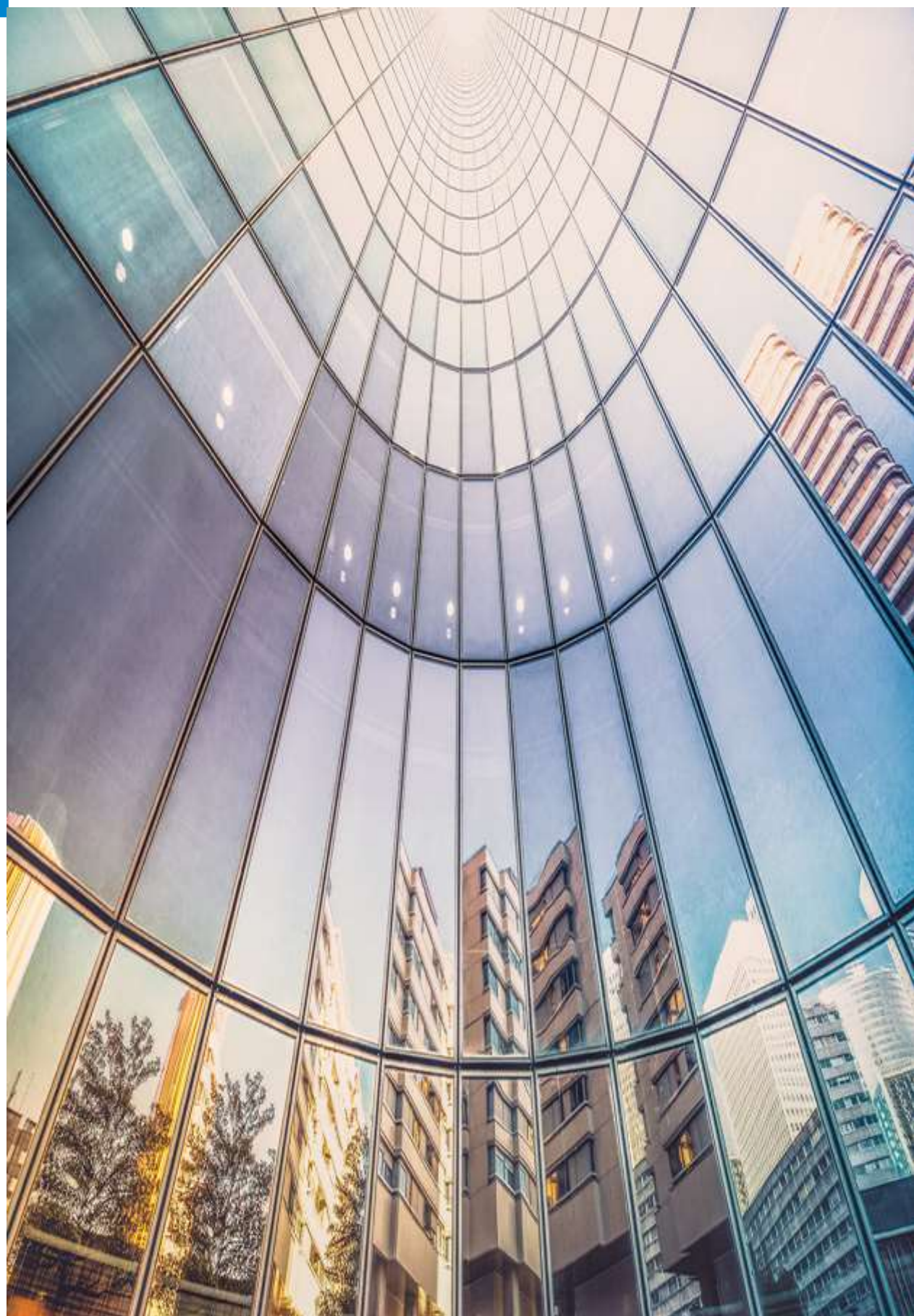
[\(12/03/2021\) ESMA – Guidelines On Disclosure Requirements Applicable to Credit Ratings](#)

The European Securities and Markets Authority (ESMA) has published Guidelines on disclosure requirements applicable to credit ratings. The purpose of these Guidelines is to improve the consistency of the information that Credit Rating Agencies (CRAs) are required to disclose as part of certain rating actions.

### REPORTING AND DISCLOSURE

[\(16/03/2021\) EC – Reglamento de Ejecución \(UE\) 2021/453 de la Comisión de 15 de marzo de 2021 por el que se establecen normas técnicas de ejecución orientadas a la aplicación del Reglamento \(UE\) nº 575/2013 del Parlamento Europeo y del Consejo en lo que respecta a los requisitos específicos de presentación de información por riesgo de mercado](#)

The European Commission (EC) has published an Implementing Regulation aimed at implementing the specific market risk reporting requirements laid down in Regulation on prudential requirements for credit institutions and investment firms. This Implementing Regulation is based on the draft implementing technical standards submitted by the EBA to the EC and includes reference and reporting dates for market risk.



# Other publications of interest

## Compliance

### VULNERABLE CUSTOMERS

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

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

### ML/TF

(03/03/2021) EBA –[The EBA highlights key money laundering and terrorist financing risks across the EU](#)

The EBA has published its Opinion on risks of money laundering and terrorist financing (ML/TF) affecting the European Union's financial sector. The ML/TF risks identified by the EBA include those that are applicable to the entire financial system, for instance the use of innovative financial services, while others affect specific sectors, such as de-risking. The list also includes ML/TF risks that emerge from wider developments such as the COVID-19 pandemic.

# Other publications of interest

## COVID-19

[\(29/01/2021\) EBA – EBA provides additional clarity on the implementation of selected COVID-19 policies](#)

The EBA has published additional clarifications on the application of the prudential framework in response to issues raised as a consequence of the COVID-19 pandemic. These clarifications update the FAQ section of the EBA Report on COVID-19 implementation policies, which provides clarity on the implementation of the EBA Guidelines on moratoria and the EBA Guidelines on COVID-19 reporting and disclosure. COVID-19.

[\(02/02/2021\) Gob. España – El Gobierno amplía las moratorias en el pago de créditos para personas vulnerables, autónomos y empresas de turismo y transporte](#)

The Council of Ministers has approved a Royal Decree-Law that extends the coverage and extends the deadline for applying for financial moratoria to alleviate the economic effects of COVID-19. The regulation extends until March 30 the possibility of applying for moratoria. Households, vulnerable self-employed workers and companies in the tourism and transport sectors will be able to defer up to a total of nine months the payment of principal and interest on their loans with and without mortgage guarantee. Moratoriums already granted will not be altered, although those who have benefited from a previous deferral may request an additional one for a maximum accumulated period of nine months between both.

[\(09/02/2021\) Fed – Federal Reserve Board announces the second extension of a rule to bolster the effectiveness of the Small Business Administration's Paycheck Protection Program \(PPP\)](#)

The Federal Reserve Board has announced the second extension of a rule to bolster the effectiveness of the Small Business Administration's (SBA) Paycheck Protection Program (PPP). Like the earlier extensions, this one will temporarily modify the Board's rules so that certain bank directors and shareholders can apply to their banks for PPP loans for their small businesses. The rule extension is effective immediately and applies to PPP loans made through March 31, 2021.

[\(11/02/2021\) IASB – IASB proposes to extend support for lessees accounting for covid-19-related rent concessions](#)

The IASB has published for consultation a proposal to extend by one year the application period of the amendment to IFRS 16 Leases issued in 2020 to help lessees accounting for covid-19-related rent concessions. The original amendment was issued in May 2020 to make it easier for lessees to account for covid-19-related rent concessions, such as rent holidays and temporary rent reductions, while continuing to provide useful information about their leases to investors. The practical relief currently applies to rent concessions that reduce only lease payments due on or before 30 June 2021. The deadline for submitting comments on the proposed amendment to IFRS 16 is 25 February 2021.

[\(12/02/2021\) EIOPA – EIOPA addresses measures to improve the insurability of business interruption risk in light of pandemics](#)

The EIOPA has published its staff paper on measures to improve the insurability of business interruption in light of pandemics. Building on the Issues paper on shared resilience solutions for pandemics published in July, EIOPA analyses options relating to prevention measures to reduce losses, capital markets risk transfer, and multi-peril solutions for systemic risk. It also addresses the general challenges related to modelling and triggers for claims in the context of pandemics.

[\(15/02/2021\) Council – Capital Markets Recovery Package: Council adopts first set of measures to help companies access funding](#)

The Council has adopted targeted amendments to the MiFID II and the prospectus regulation to facilitate the recapitalisation of EU companies on financial markets in the wake of the COVID-19 crisis. Together with adaptations to the EU's securitisation framework, the measures form part of the Capital Markets Recovery Package agreed between the Council and the European Parliament at the end of last year. The aim of the package is to make it easier for capital markets to support economic recovery from the pandemic.

[\(15/02/2021\) IOSCO – IOSCO Reviews the Impact of COVID-19 Government Support Measures on Credit Ratings](#)

The Board of the IOSCO has published a report analyzing the observed impact of COVID-19-related government support measures (GSM) on the credit ratings of the three largest credit rating agencies (CRAs). IOSCO's report provides a summary of the observed impact of GSMs on credit ratings and credit ratings methodologies through a review of any changes made to the methodologies, their application to rating actions taken during the timeframe of the pandemic.

# Other publications of interest

## Covid-19

[\(16/02/2021\) ESRB – ESRB report on the financial stability implications of COVID-19 support measures to protect the real economy](#)

The ESRB has published a report on the financial stability implications of support measures aimed at protecting the real economy from the effects of the COVID-19. The report shows that the fiscal response designed to support the real economy has stabilised lending and that the financial system has continued to function. However, as risks still lie ahead, the report also identifies policy priorities in terms of the design and duration of the fiscal measures, enhanced transparency and reporting, and preparedness for further adverse scenarios.

[\(18/03/2021\) IOSCO – IOSCO Statement on Going Concern Assessments and Disclosures during the COVID-19 Pandemic](#)

The International Accounting Standards Board (IOSO) has publishes an statement on Going Concern Assessments and Disclosures during the COVID-19 Pandemic. This statements focuses on: i) the implications for the preparation of annual financial statements; and ii) the implications for the annual audit.

# Other publications of interest

## Climate change

### CLIMATE CHANGE

[\(25/01/2021\) ECB – ECB sets up climate change centre](#)

The ECB has decided to set up a climate change centre to bring together the work on climate issues in different parts of the bank. This decision reflects the growing importance of climate change for the economy and the ECB's policy, as well as the need for a more structured approach to strategic planning and coordination. The climate change centre will start its work in early 2021.

### SUSTAINABILITY DISCLOSURE STANDARDS

[\(24/02/2021\) IOSCO – IOSCO sees an urgent need for globally consistent, comparable, and reliable sustainability disclosure standards and announces its priorities and vision for a Sustainability Standards Board under the IFRS Foundation](#)

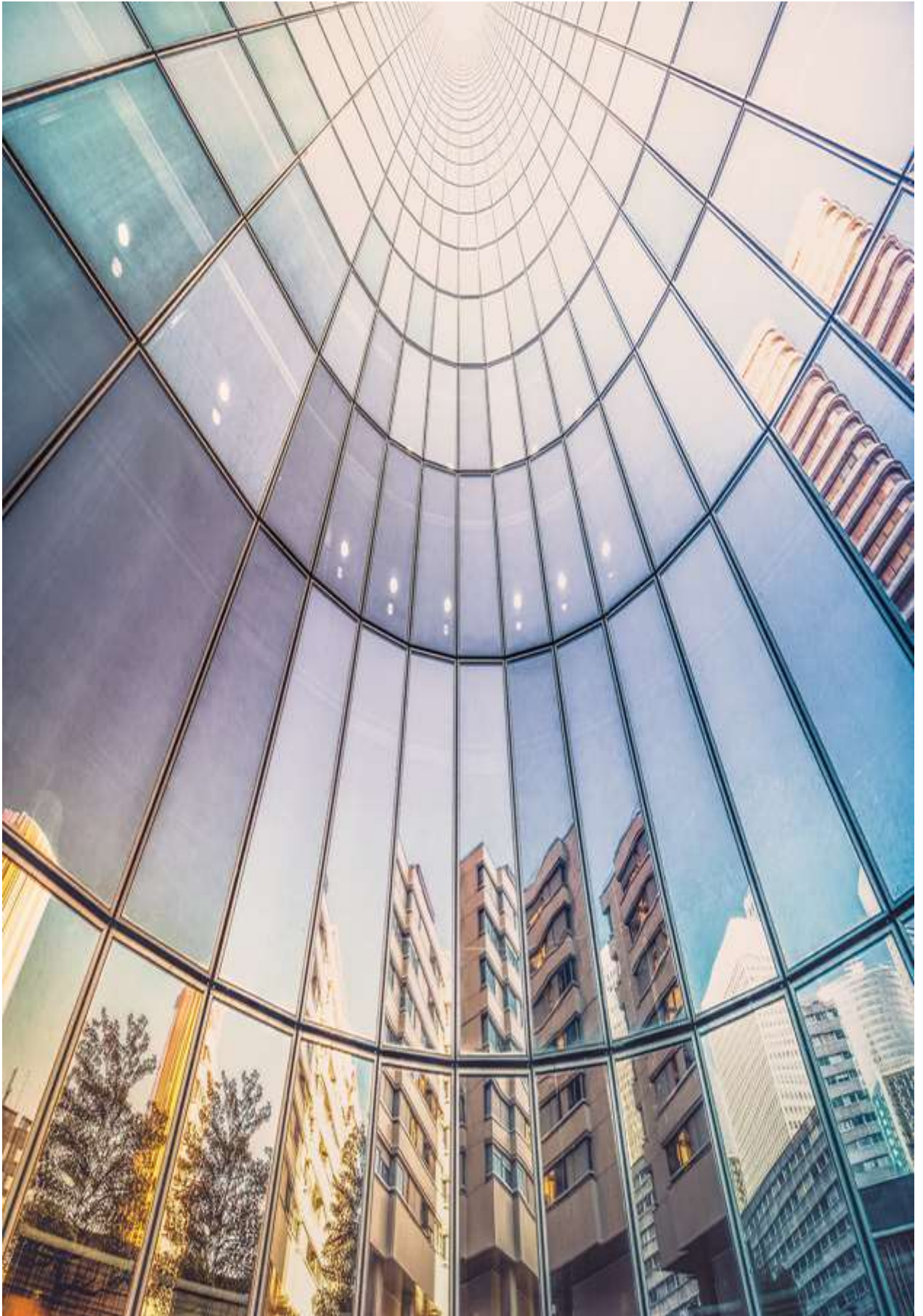
The IOSCO has published its priorities and vision for a Sustainability Standards Board under the IFRS Foundation. The IOSCO has identified three priority areas for improvement in sustainability-related disclosures by companies and asset managers: i) Encouraging Globally Consistent Standards for sustainability-related disclosure across jurisdictions; ii) Promoting Comparable Metrics and Narratives; iii) drive international consistency of sustainability-related disclosures with a focus on enterprise value creation.

### SFDR

[\(25/02/2021\) ESAs – ESAs issue recommendations on the application of the Regulation on sustainability-related disclosures](#)

The ESAs have published a joint supervisory statement on the effective and consistent application and national supervision of the Regulation on sustainability-related disclosures in the financial services sector (SFDR). The statement aims to achieve an effective and consistent application and national supervision of the SFDR, promoting a level playing field and protecting investors.







# Other publications of interest

## Work Programmes

### **IOSCO'S WORK PROGRAM**

(26/02/2021) IOSCO – [IOSCO publishes work program for 2021-2022](#)

The IOSCO has published its 2021-2022 work program to further its core objectives of protecting investors, maintaining fair, efficient, and transparent markets, and addressing systemic risks. The work program covers a two-year horizon and will be reviewed and refreshed as appropriate at end-2021. The new two priorities are: i) financial stability and systemic risks of non-bank financial intermediation activities; and ii) misconduct risks, fraud, and operational resilience.

### **CNMV 2021 ACTIVITY**

(17/03/2021) CNMV – [La CNMV presenta su plan de actividades de 2021](#)

The Comisión Nacional del Mercado de Valores (CNMV) has presented its Activity Plan for 2021, which includes 54 specific objectives or actions that the CNMV will develop this year. The CNMV's priority is supervision, which should enable the capital market to contribute to a sustainable and digital recovery. In addition to this rigorous supervision, the CNMV's objectives include promoting the capital markets as a source of financing for economic recovery, facilitating the role of the securities market in the transition towards a more sustainable and inclusive economy, ensuring the reliability of investor information and promoting technological advances applied to the securities markets by preventing risks.

# Other publications of interest

## Others

### BREXIT

[\(08/01/2021\) EIOPA – MoUs with UK authorities in the area of insurance and pensions](#)

On 5 March 2019, the European Insurance and Occupational Pensions Authority (EIOPA) and all national competent authorities (NCAs) of the European Economic Area (EEA) with competencies in insurance agreed memoranda of understanding (MoUs) with the Bank of England in its capacity as PRA and the Financial Conduct Authority (FCA) of UK. The MoUs took effect on 1 January 2021, at the end of the transition period following the departure of the UK from the European Union. These MoUs ensure cooperation in the fields of insurance prudential and conduct supervision, for mutual assistance and regular exchange of information.

### BANKING STATISTICS

[\(13/01/2021\) EBA/ECB – EBA points to a further rise in capital and leverage ratios, whereas profitability remains strongly subdued / ECB publishes supervisory banking statistics for the third quarter of 2020](#)

The European Banking Authority (EBA) has published its quarterly Risk Dashboard together with the results of the Risk Assessment Questionnaire (RAQ). The Q3 data shows a rise in capital ratios, and an improvement in the NPL ratio, while the return on equity (RoE) remained significantly below banks' cost of equity. The Risk Dashboard includes, for the first time, data on moratoria and public guarantee schemes. On the other side, the European Banking Authority has published supervisory banking statistics for the third quarter of 2020. The data shows the levels of these ratios: i) capital ratios for significant institutions; ii) the aggregate non-performing loans (NPL) ratio; iii) the annualised Return on Equity (RoE); iv) the aggregate liquidity coverage ratio; v) the aggregate leverage ratio.

### DEPOSITOR PROTECTION

[\(20/01/2021\) PRA – CP3/21 - Depositor Protection: Identity verification](#)

The PRA has published the Consultation Paper (CP) 3/21 on depositor protection. This CP sets out the PRA proposed rules regarding the timing of identity verification required for eligibility of depositor protection (DP) under the Financial Services Compensation Scheme (FSCS). It also proposes amendments to the PRA's expectations in respect of Insolvency Practitioners (IPs) being best placed to carry out identity verification checks in the event that a firm has failed to do so by the compensation date.

### CCP

[\(21/01/2021\) ESMA – ESMA updates guidelines on written agreements between CCP college members](#)

The European Securities and Markets Authority (ESMA) has published the final report on its revised Guidelines regarding written agreements between members of central counterparty (CCP) colleges. The revised Guidelines take into account changes to composition, functioning and management of CCP colleges which were introduced by amendments to the regulatory technical standards (RTS) on CCP colleges, and by EMIR 2.2.

### SUSPIC

[\(22/01/2021\) FDIC – Exemptions to Suspicious Activity Report Requirements](#)

The FDIC has published a proposed rule that would modify the requirements for FDIC-supervised institutions to file Suspicious Activity Reports (SARs). The proposed rule would amend the FDIC's SAR regulation to allow the FDIC to issue exemptions from the SAR requirements. The proposed rule would make it possible for the FDIC to grant relief to FDIC supervised institutions that develop innovative solutions to meet Bank Secrecy Act (BSA) requirements more efficiently and effectively.

### CCPs

[\(27/01/2021\) EC – Commission adopts equivalence decision for US central counterparties](#)

The European Commission (EC) has adopted an equivalence decision determining that the US Securities and Exchange Commission (SEC) regime for US central counterparties (CCPs) is equivalent to EU rules. This decision is an important first step for US CCPs registered with the SEC to be recognised in the EU. It will allow such US CCPs to apply for recognition by the European Securities and Markets Authority (ESMA). Once recognised by ESMA, these US CCPs will be able to provide central clearing services in the EU.

# Other publications of interest

## Others

### CROS

[\(01/02/2021\) ESMA – ESMA finalises rules on standardised information to facilitate cross-border distribution of funds](#)

The ESMA has published a final report on implementing technical standards (ITS) under the Regulation on cross-border distribution of funds. The ITS focus on the publication of information by national competent authorities (NCAs) on their websites, the notification of information by NCAs to ESMA and the publication of information by ESMA on its website.

### TECHNICAL ASSISTANCE AND ADVICE

[\(02/02/2021\) ESMA – ESMA calls experts on post trading to join consultative industry group](#)

The ESMA has published a call for candidates to renew the Consultative Working Group (CWG) for the ESMA's Post Trading Standing Committee (PTSC). The PTSC-CWG is expected to provide technical assistance and advice to the PTSC in all aspects of its work, and in particular in the development of technical standards or guidance in relation to the relevant legislations within the area of competence of the PTSC. It is also expected to assist the PTSC in assessing the potential impact of proposed technical standards and guidance.

### SECURITISATIONS

[\(05/02/2021\) ESMA – Guidelines on portability of information between securitisation repositories under the Securitisation Regulation](#)

The ESMA has published the Guidelines on portability of information between securitisation repositories under the Securitisation Regulation. These guidelines apply to securitisation repositories and provide clarification on: i) the transfer of securitisation information by a securitisation repository from which registration has been withdrawn to other securitisation repositories; and ii) the content of the policies for the orderly transfer of data which a securitisation repository has to establish for the transfer of securitisation information to other securitisation repositories where requested by a reporting entity or where otherwise necessary. This consultation will be open until April 6, 2021.

### IFRS

[\(12/02/2021\) IASB – IASB amends IFRS Standards to improve accounting policy disclosures and clarify distinction between accounting policies and accounting estimates](#)

The IASB has issued narrow-scope amendments to IFRS Standards. The amendments will help companies: i) improve accounting policy disclosures so that they provide more useful information to investors and other primary users of the financial statements; and ii) distinguish changes in accounting estimates from changes in accounting policies. The amendments to IAS 1 (presentation of financial statements) and IAS 8 (accounting policies, changes in accounting estimates and errors) will be effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted.

### NETTING

[\(18/02/2021\) Fed – Federal Reserve Board announces final rule intended to reduce risk and increase efficiency in the financial system by applying netting protections to a broader range of financial institutions](#)

The Federal Reserve Board has published a final rule that is intended to reduce risk and increase efficiency in the financial system by applying netting protections to a broader range of financial institutions. The final rule amends Regulation EE (Financial Institution Netting) to apply netting provisions of the FDIC Improvement Act (FDICIA) to certain new entities including swap dealers.

### BENCHMARKS REGULATION

[\(25/02/2021\) ESMA – ESMA consults on methodology to calculate a benchmark in exceptional circumstances](#)

The ESMA has launched a consultation on draft guidelines detailing the obligations applicable to administrators that use a methodology to calculate a benchmark in exceptional circumstances under the Benchmarks Regulation (BMR). The Consultation Paper seeks input on clarifications and specifications regarding the adjustments of benchmarks in exceptional circumstances in relation to three areas: i) transparency of methodology; ii) oversight function; iii) record keeping requirements.

# Other publications of interest

## Others

### CONSUMER TREND REPORT

[\(10/03/2021\) – EBA assesses consumer trends for 2020/2021](#)

The EBA has published its Consumer Trends Report for 2020/2021. The report summarises the trends observed in the EU in respect of the retail banking products and services such as mortgages, consumer credit, deposits, payment accounts, payment services and electronic money. The report also identifies issues that have arisen for consumers in relation with this products and explains the measures the EBA has taken to mitigate the impact of the COVID-19 pandemic on consumers.

### CONNECTING EUROPE FACILITY

[\(12/03/2021\) EP – Connecting Europe Facility: provisional deal on next generation programme](#)

The EP and Council negotiators reached a deal to upgrade the Connecting Europe Facility (CEF) and release new funds for transport, digital and energy projects for 2021-2027. With an overall budget of about €30 billion, CEF will fund projects to modernize transport infrastructure and cross-border projects with an EU added value. In the digital sector, CEF will support the development of projects on safe and secure digital networks and 5G systems, as well as the digitalization of transport and energy networks.

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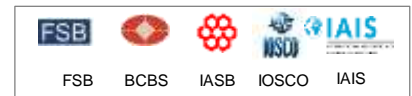
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