# 2Q22
# Regulation Outlook

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# Executive Summary

***In this period, data related publications stand out, in particular the EU Data Governance Act, as well as the draft Data Privacy and Protection Act Draft Legislation in the USA. Several ESG publications also featured in the quarter, such as the results of the first UK climate stress test or the new disclosure rules for investment advisers and investment companies in the US***

### *European publications*

- **Final Report on Taxonomy extension options supporting a sustainable transition** which contains recommendations to extend the Taxonomy framework to classify activities as: i) Unsustainable performance requiring an urgent exit/transition to avoid Significant Harm; ii) Intermediate (or Amber) performance and iii) Low Environmental Impact activities (PSF, April 2022).
- **Methodological report for environmental objectives of the Taxonomy Regulation**, which contains recommendations relating to TSC for objectives 3 to 6, as well as recommendations to improve the design of the Taxonomy (PSF, April 2022).
- **Data Governance Act** laying down robust mechanisms to facilitate the reuse of certain categories of protected public-sector data, increase trust in data intermediation services and foster data altruism across the EU. This new regulation complements the Directive on open data and the re-use of public sector information (EP and Council, May 2022).
- **Guidelines for the SREP and supervisory stress testing**. The document introduces the assessment of the risk of excessive leverage and the revision of the methodology for the determination of the Pillar-2 capital guidance. Additionally, the principle of proportionality is enhanced as well as the encouragement of cooperation among prudential supervisory authorities and money laundering and countering the financing of terrorism supervisors, as well as resolution authorities (EBA, April 2022).
- **Discussion paper on physical climate change risks**. The objective of the paper is to provide an assessment of the European insurance sector's exposure to climate-related hazards and inform future work in this field (EIOPA, May 2022).

### *Local publications*

- **Results of the 2021 CBES** which is the first exploratory scenario exercise on climate risk**,** involving the largest UK banks and insurers hereinafter referred to as "firms") aiming to assist in ensuring the financial system is resilient to climate-related financial risks. In general, all participating firms have more work to do to improve their climate risk management capabilities (BoE, May 2022).
- **New rules on the enhanced disclosures by certain investment advisers and investment companies about ESG investment practices**. The proposed rules are intended to inform and protect investors while facilitating further innovation in this area of the asset management industry (SEC, June 2022).
- **American Data Privacy and Protection Act Draft Legislation,** which includes the guarantee of data privacy rights, the creation of oversight mechanisms and the adoption of meaningful enforcement (Senate, June 2022).

# Regulatory projections

***At the European level, in the next quarter the EC is expected to publish the proposal on European cyber resilience Act. Also, the EBA will publish several important documents, such as the RTS on liquidity risk measurement for investment firms. At local level, the FCA will publish the Final requirements of the New Consumer Duty.***

### *Featured regulatory projections*

#### 1. Next quarter

- **(Europe) Q3 2022**:
  - EC: i) Multi-annual work programme (2023-2025 horizon); and ii) proposal on European cyber resilience Act.
  - EBA: i) RTS on liquidity risk measurement of Investment firms; ii) GL on common SREP under IFD; iii) RTS on Pillar 2 add-ons under IFD; iv) Final Guidelines on digital identities and electronic onboarding and v) ITS on benchmarking for market risk.
  - ESMA: Guidelines on MiFID II product governance requirements (sustainability).
  - EP and Council: Directive on measures for a high common level of cybersecurity across the Union, repealing Directive (EU) 2016/1148 (NIS Directive)
- **(UK) Q3 2022**:
  - PRA: Consultation Paper on disclosure rules and labelling to support Government ambition in green finance
- **(UK) July 2022**:
  - FCA: Final requirements of the New Consumer Duty
- **(Europe) September 2022**:
  - EBA: i) Final Guidelines on transferability; ii) Annual 2022 EU-wide Transparency

#### 2. Next year

- **(Europe) 2022**:
  - EIOPA: Guidelines on the application by companies of the requirement for long-term climate change scenario analysis.
- **(Europe) Q4 2022**:
  - EBA : i) GL on benchmarking of internal models; ii) GL on ESG risk management; iii) ITS on IRRBB reporting; and iv) ITS on Pillar 3 reporting of ESG risks (full scope of ESG risks).
  - EIOPA: i) integrate the Taxonomy Regulation into the requirements applicable to insurers and pension funds; ii) Sustainable Financial Disclosure Regulation (SFDR) together with the other ESAs; and iii) results on IORPs stress test 2022.
  - EP and Council: Regulation laying down requirements for artificial intelligence (AI Law).
  - EC: second Delegated Act in relation to the four remaining objectives of the EU Taxonomy Regulation.
- **(UK) Q4 2022**:
  - FCA: Consultation Paper on prudential disclosure of ESG information.
  - PRA: Consultation Paper on prudential ESG disclosure
- **(Spain) Q4 2022**:
  - BdE: Circular to credit institutions and other supervised entities, regarding information on capital structure and equity shares and on their offices.
- **(Global) November 2022:**
  - The FSB will update the list of G-SIBs
- **(Europe) December 2022**:
  - SRB: Banks must present either a preliminary analysis of the Separability Analysis Report (SAR) or the SAR and transfer playbook by December 31, as set out in the operational guidance on the feasibility of resolving the SRB.
  - EIOPA: 2022 climate stress test for IORPs

### 3. More than a year

- **(Spain) 2023**:
    - Spanish government: Royal Decree implementing Article 32 of Law 7/2021, of May 20, on climate change and energy transition, is expected to be published.

## *Application dates*

### 1. Next quarter

- **(Europe) July 2022**:
    - The EP and Council Directive (EU) 2019/2162 and Regulation (EU) 2019/2160 on exposures in the form of covered bonds.
- **(US) July 2022**:
    - The Final Rule of the Fed and the FDIC on modifications to resolution plan requirements for covered companies that are triennial reduced filers.

### 2. Next a year

- **(Europe) 2022**:
    - The EBA Guidelines on remuneration policies, internal governance and assessment of suitability.
- **(Europe) December 2022**:
    - The EBA ITS of Supervisory Reporting which reflects the amendments to the securitisations framework and minor changes to the reporting on own funds and own funds requirements.
    - EBA Guidelines on policies and procedures in relation to compliance management and the role and responsibilities of the AML/CFT Compliance Officer
- **(Global) January 2023**:
    - The revised SA for credit risk, the revised IRB framework, the revised CVA framework, the revised operational and market risk framework published in Basel III and the standard on the minimum capital requirements for market risk by the BCBS will be implemented. Moreover, the LR framework using the revised exposure definition and the G-SIB buffer.
    - The BCBS technical amendment on the capital treatment of securitisations of NPLs.
    - The amendments to IFRS 17 proposed by the IASB.
- **(Europe) January 2023**:
    - Delegated Act of the EC Supplementary to the Climate Taxonomy.
    - EBA Guidelines for common procedures and methodologies for the SREP

### 3. More than a year

- **(Europe) 2023**:
    - Implementation of the provisions amending the CRR (exceptions to application on 2025) concerning: i) amendments on the prudential requirements of investment firms; ii) certain changes on definitions of entities to be included in the scope of prudential consolidation; iii) certain provisions concerning own funds and eligible liabilities.
- **(Europe) Septiembre 2023**:
    - Data Governance Act
- **(Europe) December 2023**:
    - First date of reference for the disclosure of GAR.
    - ITS of the EIOPA on the amendments of supervisory reporting and disclosure requirements under Solvency II
- **(Europe) January 2024**:
    - EBA Guidelines on resolvability.
    - EBA final guidelines on transferability.
- **(Europe) June 2024**:
    - First date of reference for disclosure of additional (vs GAR) BTAR information.
- **(Europe) 2025**:
    - General application of the provisions amending the CRR which introduce revisions to the Basel III framework in Europe.
    - Member States shall adopt and publish the regulations and administrative provisions necessary to comply with CRD IV amendments.

# Publications of the quarter

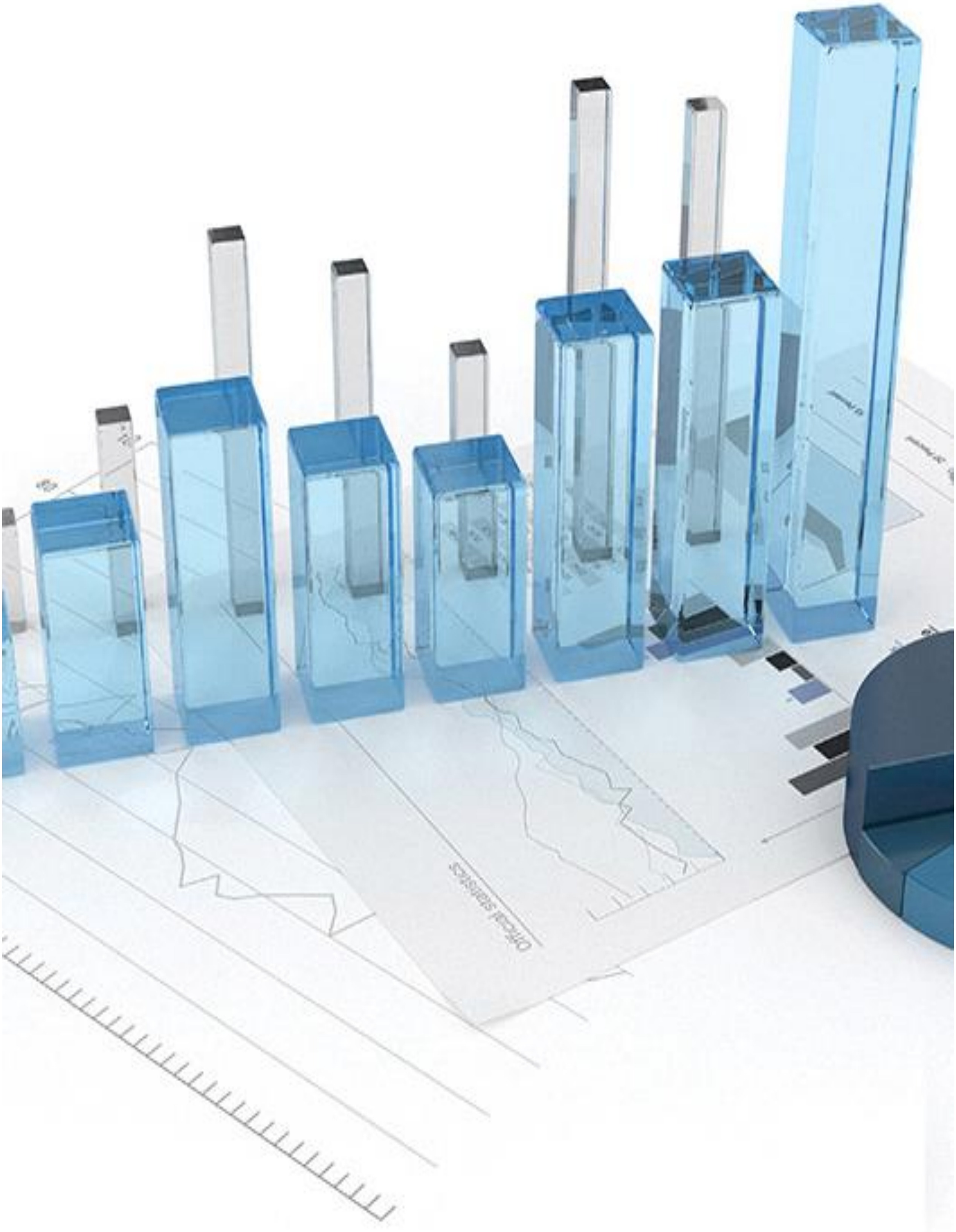
## Summary of outstanding publications of this quarter

| Topic | Title | Date | Page |
|---|---|---|---|
| | **Financial Stability Board** | | |
| **Work program** | • 2022 Work program | 07/04/2022 | 12 |
| | **Platform on Sustainable Finance/ European Commission** | | |
| **Taxonomy** | • Final Report on Taxonomy extension options supporting a sustainable transition. Methodological report on technical screening criteria for environmental objectives of the Taxonomy Regulation | 14/04/2022 | 13 |
| | **European Parliament** | | |
| **Data Governance** | • Data Governance Act | 18/05/2022 | 15 |
| | **European Insurance and Occupational Pensions Authority** | | |
| **Solvency II** | • Draft ITS on the amendments of supervisory reporting and disclosure requirements under Solvency II | 06/04/2022 | 16 |
| **Stress test** | • Stress test climático de 2022 para IORPs | 08/04/2022 | 18 |
| **Climate Change** | • Discussion paper on physical climate change risks | 27/05/2022 | 19 |
| | **European Banking Authority** | | |
| **SREP** | • Guidelines for common procedures and methodologies for the supervisory review and evaluation process (SREP) and supervisory stress testing | 05/04/2022 | 20 |
| **AML/CFT** | • Guidelines on policies and procedures in relation to compliance management and the role and responsibilities of the AML/CFT Compliance Officer | 20/06/2022 | 22 |
| **COVID-19** | • Principles that should be applied in ensuring representativeness of the IRB-relevant data impacted by the COVID-19 pandemic and related measures | 24/06/2022 | 23 |
| | **European Securities Market Authority** | | |
| **IFRS** | • Public Statement on the Transparency on implementation of IFRS 17 Insurance Contracts | 23/05/2022 | 24 |
| | **European supervisory authorities** | | |
| **Securitizations** | • Joint Consultation Paper on sustainability disclosures for STS securitizations | 09/05/2022 | 25 |
| | **Bank of England** | | |
| **Climate Change** | • Results of the 2021 Climate Biennial Exploratory Scenario: Financial risks from climate change | 30/05/2022 | 27 |

# Publications of the quarter

## Summary of outstanding publications of this quarter

| Topic | Title | Date | Page |
|---|---|---|---|
| | **Prudential Regulation Authority** | | |
| **Stress Test** | • Insurance Stress Test 2022 | 11/05/2022 | 27 |
| **Supervision** | • Consultation Paper (CP) 6/22 on Supervisory Statement (SS) on Model risk management principles for banks | 24/06/2022 | 29 |
| | **Securities Exchange Commission** | | |
| **ESG** | • Proposed rules on the Enhanced Disclosures by Certain Investment Advisers and Investment Companies about ESG Practices | 15/02/2022 | 31 |
| | **United States Senate** | | |
| **Data Protection** | • American Data Privacy and Protection Act Draft Legislation | 17/06/2022 | 33 |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FSB FINANCIAL STABILITY BOARD

**07/04/2022**
**2022 Work Programme**

**1. Context**

The FSB has published the **work programme for 2022** which aims to maximise the value of the FSB's global and cross-sectoral approach to financial stability policy. The FSB's work priorites reflect that financial challenges are global in nature and affect the financial system as a whole. These challenges include digitalisation, climate change and potentially also shifts in the macroeconomic and interest rate environment.

**2. Main points**

- **Supporting international cooperation and coordination on current financial stability issues**. Against the backdrop of the Russia-Ukraine conflict and its economic impacts, the FSB is reinforcing its forward-looking monitoring to identify, assess and address new and emerging risks to global financial stability. Furthermore, work will also continue on policy responses to COVID-19 pandemic.
- **Enhancing the resilience of the non-bank financial intermediation (NBFI) sector**. The FSB's published a holistic review of the March 2020 market turmoil which lays out a comprehensive and ambitious work programme for strengthening the resilience of NBFI. Work in 2022 will focus on the specific issues identified in the holistic review, including on the USD funding and emerging market economy (EME) vulnerabilities and on the development a systemic approach to NBFI. For example, in April it is expected that the FSB will publish a Report on USD funding and EME vulnerabilities during the March 2020 turmoil.
- **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 2022, the FSB will have to complete a number of actions under the roadmap, including the development of an approach to monitor progress against the quantitative targets; identification of gaps or areas for enhanced implementation in standards; and work on enhancing data sharing. In October, it is expected that the FSB will publish an annual report on implementation of the cross-border payments roadmap.
- **Harnessing the benefits of digital innovation while containing its risks**. The FSB will continue to work on the financial stability and regulatory and supervisory implications of technological innovation, with a particular focus on various forms of crypto-assets, including decentralised finance (DeFi).
- **Addressing financial risks from climate change**. The focus will be on building and strengthening the analytical basis for monitoring climate-related risks to financial stability and identifying regulatory and supervisory approaches to address climate-related financial risks. For example, in July it is expected that the FSB will publish a Report on the use of scenario analysis for climate-related risks.

PLATFORM ON SUSTAINABLE FINANCE

EUROPEAN COMMISSION

**11/04/2022**
**Final Report on Taxonomy extension options supporting a sustainable transition**
**Methodological report on technical screening criteria for environmental objectives of the Taxonomy Regulation**

**1. Context**

As set out in the Taxonomy Regulation (TR), the European Commission (EC) is required to deliver a report on describing the provisions that would be required to extend the scope of the TR. To this end, the EC asked the PFS for advice on extending the taxonomy to social objectives and the possible extensions of the taxonomy to classify a wider range of activities. On March 2022 the PSF published the Final Report on Social Taxonomy which summarises the main initial observations and recommendations on this mandated task. The EC also asked the PFS for advice on the technical screening criteria (TSC) on environmental objectives, as well as on the possible need to update those criteria, in order to assist the EC on the elaboration of the second delegated act for the remaining objectives of the TR.

In this context, the PSF has published the Final Report on Taxonomy extension options supporting a sustainable transition. When read together with the Platform's report on a future Social Taxonomy, this report presents a fuller picture of how the Taxonomy can and should develop in the near future. Additionally, the PSF has published the Methodological report on TSC for environmental objectives of the TR, which contains recommendations relating to TSC for objectives 3 to 6 of the TR, as well as recommendations to improve the design of the Taxonomy and the Taxonomy criteria.

**2. Main points**

Final Report on Taxonomy extension options supporting a sustainable transition.

The PSF recommends extending the TR to rank the activities as follows, highlighting that priority should be given to the first three in the list:

- **Unsustainable performance requiring an urgent transition to avoid significant harm**. These are activities that need to be improved urgently and could qualify for Taxonomy-recognised investment as part of a transition plan to avoid their current significantly harmful performance and move to intermediate performance levels.
- **Unsustainable, significantly harmful performance where urgent, managed exit/decommissioning is required**. These are activities that cannot be improved to avoid significant harm and will therefore remain always significantly harmful (ASH) and should be prioritised for Taxonomy-recognised transition investment as part of a decommissioning plan with a Just Transition effort.
- **Intermediate (or Amber) performance**. These are activities that operate between significantly harmful and substantial contribution performance levels and could qualify for Taxonomy-recognised investment as part of an intermediate/amber transition plan under which they continue to improve to stay out of significantly harmful performance.
- **Low environmental impact (LEnvl) activities**. These are activities that do not have a significant environmental impact and should not be regarded as either red, amber or green. This could allow enterprises or entities to show that their overall activities, while not considered green, do not cause environmental or social harm. It could also enhance their environmental credibility by ensuring that an entire portfolio, with a number of non-green investments, does not cause significant environmental harm. This classification should also encourage LEnvl enterprises to access green Taxonomy-aligned finance for their green investments and expenditures.

Methodological report on TSC for environmental objectives of the Taxonomy Regulation.

- **Taxonomy approach explained**. The PSF sets out the requirements and principles used to assess which economic activities should be included in the taxonomy and under which conditions. Furthermore, describes the NACE sector and economic activity-based framework under which criteria were established.
    - Whilst a harmonised methodology was applied across all four objectives, for the collection, assessment and structuring of the data, objectives were treated separately in order to obtain separate lists and rankings of economic activities.
    - The core of the EU taxonomy is the TSC, which define when an activity is assessed as environmentally sustainable. The PSF has selected a list of 44 activities/criteria, per environmental objective and has allocated them across the following eight sectors: i) Agriculture, forestry and fishing; ii) Mining and Processing; iii) Manufacturing; iv) Energy; v) Construction and buildings; vi) ICT, vii) Emergency Services; viii) Transport; ix) Restoration and Remediation and Tourism; x) Water supply; xi) Sewerage, and Waste Management.

- **Defining headline ambition levels for environmental objectives**. Defining substantial contribution to the Taxonomy environmental objectives requires an understanding of what the objectives are in terms of their end-state targets (headline ambition levels), how they interact and what sort of contribution should be expected through an implementing activity. In the same way TSC were provided for the objectives 1and 2, the PSF has provided those same interpreted targets for objectives 3 to 6 of the TR. The principles for setting a headline ambition level of the four remaining objectives are: i) be science-based; ii) be based on international agreements that EU supports and iv) reflect EU's response to international agreements or EU's leadership on an objective.
- **Understanding Environmental Objectives**. Unlike circular economy (objective 4), or pollution (objective 5), the water and biodiversity objectives (3 and 6) require an understanding of when the desired end state has been reached and how that can be described in the context of different economic activities through TSC. For this reason, the PSF has developed substantial contributions to these objective, in order to complement TR and provide methodological guidance.
- **Recommendations**. The PSF sets out he recommendations and preliminary lessons learned from the process of developing criteria for the remaining four objectives of the Taxonomy, how these have added to the knowledge and understanding of the Taxonomy framework beyond the climate objective, and the work that would be needed to improve and evolve the Taxonomy over time. These recommendations include: i) ensuring synergy and consistency between criteria as the Taxonomy evolves ; ii) the proposal to review the existing do no significant harm criteria in the climate delegated act; iii) undertaking a horizontal analysis of adaptation approaches to climate; iv) clarifying for the using audience and future taxonomy developers understanding around the scope of economic activities and the link with assets and v) the development of measures to allow Taxonomy alignment below the level of an activity

A Technical Annex (Part B) supplements this report. The annex contains the TSC for economic activities contributing to all six environmental objectives of the TR, including the rationale for those criteria.

### 3. Next Steps

- Recommendations and the revised conceptual framework for economic activities qualified as contributing substantially to one or more of the environmental objectives (enabling activities) set out in the TR, are expected to be presented in the PSF supplement to this report by **May**. This report would include also activities such us forestry, agriculture, bioenergy for the objective related to biodiversity and waterbone transportation, manufacturing of chemical products and land transportation for the objective related to pollution.
- Beyond these activities, there are **other activities and criteria** that have proven particularly challenging and where evidence is lacking or the approach to delivering a substantial contribution is not yet clear. These activities are not currently undergoing any further development work, but are being considered for **future work**. One such activity is land-based mining and quarrying of minerals (other than coal, lignite, crude oil/petroleum or natural gas) and supplementary 20 activities aimed at preparing the crude materials for marketing.
- The adoption of the **delegated act** by the EC developing the aspects analyzed by the PSF, has been delayed from the initial date foreseen in the TR of 31 December 2021 and is expected to be adopted in the course of 2022. At the moment there is no further information on the new release date.

**18/05/2022**
**Data Governance Act**

**1. Context**

Over the last few years, digital technologies have transformed the economy and society, affecting all sectors of activity and daily life. Data is at the centre of this transformation: data-driven innovation will bring enormous benefits for citizens, for example through improved personalised medicine, new mobility, and its contribution to the European Green Deal, among others. In this sense, in November 2020 the European Commission (EC) published the Proposal on Data Governance Act for approval by the European Parliament and Council.

In this context, the European Parliament and the Council have approved the **Data Governance Act** which will set up robust mechanisms to facilitate the reuse of certain categories of protected public-sector data, increase trust in data intermediation services and foster data altruism across the EU. The aim of this new regulation it is not to amend or remove the substantial rights on access and use of data, but to complement the Directive on open data and the re-use of public sector information.

**2. Main points**

- **Re-use of categories of protected data held by public sector bodies**. It applies to data held by public sector bodies which are protected on grounds of: i) commercial confidentiality; ii) statistical confidentiality; iii) protection of intellectual property rights of third parties; and iv) protection of personal data excluded from the scope of the Open Data Directive.
    - Prohibition of exclusive arrangements. An exclusive right to re-use data may be granted to the extent necessary for the provision of a service or a product in the general interest..
    - Conditions for re-use. Public sector bodies which are competent under national law to grant or refuse access for the re-use of data shall make publicly available the conditions for allowing such re-use of data and the procedure to request it. The conditions include, among others compliance with confidentiality obligations, intellectual property rights and specific obligations in case of transmission of data to a third country. Additionally, public sector bodies may provide for the following requirements to ensure that the protected nature of data is preserved (e.g guarantee of anonymity, modification or treatment of data) and may charge fees for allowing such re-use.
    - Single information point. Member States shall establish a new body or designate an existing body or structure as the single information point. On this information point it should be available an overview of all available data resources including conditions for re-use of data. The organism will receive requests for the re-use of data and shall transmit them to the competent public sector bodies. As a novelty, the possibility of creating a specific information channel for SMEs has been introduced.
    - Procedure for requests for re-use. As a novelty, a period of two months from the date of receipt of the request is established to take decisions on the re-use of the data.
- **Requirements applicable to data sharing services**.
    - Conditions for providing data intermediation services. Any provider of data sharing services who intends to provide certain services described in a previous proposal shall submit a notification to the competent authority, which must include certain information set out in the Regulation. The provision of services will also be subject to a number of conditions., which have been expanded in the final document.
    - Competent authorities. Each Member State shall designate in its territory one or more authorities competent to carry out the tasks related to the notification framework and to monitor and supervise the requirements applicable to data sharing services. This authorities shall be legally distinct from any provider of data sharing services.
- **Data altruism**. Each competent authority designated shall keep a register of recognised data altruism organisations and shall monitoring compliance with the requirements that the data altruism organization shall meet. The competent authority shall monitor and supervise the register of data altruism organisations, and shall have the power to request information and require cessation in the event of a breach.
- **European data innovation board**. The EC shall establish a European Data Innovation Board ("the Board") in the form of an expert group. The board will assist the EC in facilitating cooperation between national competent authorities within the framework of this regulation and will advise about the prioritization of cross-sector standards to be used and developed for data use and cross-sector data sharing.

**3. Next steps**

- This Regulation shall enter into force on the **twentieth day** following that of its publication in the Official Journal of the EU and it shall apply **15 months** after its entry into force (expected in **September 2023**)
- Entities providing the data intermediation services shall comply with the obligations set out in the Regulation 39 months after the date of entry into force of this Regulation (expected in **September 2025**).

European Insurance and Occupational Pensions Authority

**06/04/2022**
**Draft ITS on the amendments of supervisory reporting and disclosure requirements under Solvency II**

**1. Context**

In December 2020, the EIOPA published the Opinion on the 2020 review of Solvency II which propose a number of amendments to ensure that the regulatory framework remains fit for purpose. However, there is a need to implement amendments to reporting requirements within the current legal framework, without waiting for the Solvency II review because of the significant improvements that these changes would bring for insurers. In 2021 the EIOPA conducted a public consultation on the amendments of supervisory reporting and disclosure requirements under Solvency II. These proposed amendments involve changes to the EC Implementing Regulations published in 2015 on reporting and disclosure.

In this context, the EIOPA has published the **Draft Implementing Technical Standards (ITS) on the amendments of supervisory reporting and disclosure requirements under Solvency II** based on the feedback received following the publication of the consultation paper (CP). These proposal leads to fit-for-purpose reporting requirements, reduction of reporting costs for the majority of insurance undertakings and better supervision through the inclusion of some new information on emerging risks and new areas for which supervisors identified a number of data gaps.

**2. Main points**

- **Disclosure**. The main changes to the EC implementing Regulation laying down ITS with regard to the procedures, formats and templates the solvency and financial condition report, are:
  - Templates for the solvency and financial condition report of individual undertaking. Insurance and reinsurance undertakings shall publicly disclose as part of their solvency and financial condition disclose several templates. Some of these templates have been modified, such as the one specifying information on premiums, claims and expenses by country.
  - Templates for the solvency and financial condition report of groups. Participating insurance and reinsurance undertakings, insurance holding companies or mixed financial holding companies shall publicly disclose several templates. As a novelty to the CP, the template on the specific information on the undertakings in the scope of the group has been deleted.
  - References to other documents in the solvency and financial condition report. Undertakings above mentioned can include in the solvency and financial condition report references to other publicly available documents. New with respect to the CP, is the removal of the requirement to not change for at least five years after the disclosure date the location of the other publicly available documents for which the solvency and financial condition report makes reference in the website of that undertaking.
  - Consistency of information. Insurance and reinsurance undertakings, participating insurance and reinsurance undertakings, insurance holding companies or mixed financial holding companies are responsible for the quality of the information disclosed.
- **Reporting**. The main changes to the EC implementing Regulation laying down ITS with regard to the templates for the submission of information to the supervisory authorities, include:
  - Changes to the quantitative reporting templates for individual undertakings, including captive insurance and captive reinsurance undertakings and groups.
    - The proposals include the **simplification of quarterly reporting** for all undertakings and elimination of some annual reporting templates for all undertakings. Other new features include the introduction of an annual quantitative template for individual institutions specifying information on climate risks for investments and an annual quantitative template for these institutions specifying information on cyber security underwriting risk.
    - Furthermore, the proposal takes into account the **specific nature of captive insurance** and captive reinsurance undertakings, and provides for specific arrangements for them, with reporting requirements adjusted to the nature, scale and complexity of their business and taking account of the different business models, and with a defined scope of reporting from a risk perspective (e.g specific quarterly and annual quantitative templates for these undertakings have been added).
    - Finally, the amendments includes **new thresholds** to better promote risk-based and proportionate reporting requirements, leading to exemptions of reporting certain templates for many undertakings. As a novelty to the CP, the undertakings within the scope of this regulation companies shall not submit the annual templates to which a reporting threshold applies when that threshold is not exceeded both in the current and the previous reporting year. However, they may submit them on a voluntary basis when the umbral mentioned is not exceeded. Additionally, under these condition they shall be exempted from reporting the annual templates concerned for the current and the following reporting year.

**3. Next Steps**

- As a novelty to the CP, the entry into force of the Implementing Regulations is amended to **31 December 2023**.

08/04/2022
**2022 climate stress test for IORPs**

**1. Context**

EIOPA has to initiate and coordinate Union-wide assessments of the resilience of financial institutions to adverse market developments. In such assessments, EIOPA should consider the effects of economic scenarios on the Institutions for occupational retirement provision (IORP's) financial position, taking into account defined benefit (DB) and defined contribution (DC). Further, environmental risks and their effects on the financial stability of the IORP sector should be analysed. In 2019, EIOPA carried out a stress test to assess the resilience and potential vulnerabilities of the DB and DC For the first time, this European exercise also covered an analysis of IORPs' integration of Environmental, Social and Governance (ESG) factors. However, only 30% of them had processes in place to manage ESG risks and only 19% of them assessed the impact of ESG factors on investments' risk and returns.

In this context, the EIOPA has launched its first **climate stress test to gain insights into the effects of environmental risks on the European occupational pension sector**. The stress test focuses on the impact on IORPs' investments, yet also addresses the effects on IORPs' financial situation, including the financing by sponsoring undertakings. Among the documents published are the reporting templates for the exercise and a support tool.

**2. Main points**

- **Objectives**. The 2022 IORP stress test has two main objectives:
  - Assessing IORPs' exposures to environmental risks, by estimating the impact of an adverse environmental scenario on the value of IORP's investments.
  - Assessing the effects of a rise in inflation on retirement income, by carrying out a qualitative analysis to assess the dependencies between inflation, loss of purchasing powers and mandatory or automatic (or discretionary) mitigating adaptation mechanisms.
- **Scope**. Consistently with previous IORP stress tests, only European Economic Area (EEA) countries with material IORP sectors, exceeding EUR 500m in assets at year-end 20203, are required to participate.
- **Processes**. Participating IORPs have to submit the reporting spreadsheets to their National Competent Authority (NCA) after completing the exercise, no later than 13 June 2022. The NCAs will validate the data submissions at the national level and will follow up with IORPs if inconsistencies are discovered.
- **Environmental risks: climate change scenario**. The scenario used in this exercise assesses IORPs' potential financial losses and short-term vulnerabilities in an assumed instantaneous shock triggered by a disorderly transition due to a sharp increase in the price of carbon emissions. This scenario is based on the disorderly transition scenario developed by the Network for Greening the Financial System (NGFS).
- **Assessing the effects of a rise in inflation**. To understand the potential effects of rising inflation levels, EIOPA developed a qualitative questionnaire to see in which ways the retirement income of members and beneficiaries and, where relevant, potentially the technical provisions of IORPs are affected. Further, some quantitative information is requested to or a high-level assessment as to how sensitive future retirement income (and technical provisions).

**3. Next steps**

- From **13 April to 16 May 2022**, participating IORPs can make use of a dedicated EIOPA Q&A process by contacting their national competent authorities.
- By **13 June 2022**, participating IORPs are expected to complete the exercise and submit the results to their national competent authorities.
- The results of the stress test are expected to be published in **December 2022**.

European Insurance and Occupational Pensions Authority

**27/05/2022**
**Discussion paper on physical climate change risks**

**1. Context**

In 2020, and as part of the sustainability agenda to integrate environmental, social and governance risk assessment in the regulatory and supervisory framework, the EIOPA published the sensitivity analysis of climate-change related transition risks. This report quantifies potential climate-change related transition risks and presents insights into possible impacts on these investments as economies transition away from fossil fuel-dependent energy production and carbon-intensive production.

In this context, the EIOPA has published the **Discussion paper on physical climate change risks**, which is a follow-up to the report published in 2020. The Objective of the paper is to provide an assessment of the European insurance sector's exposure to climate-related hazards and inform future work in this field.

**2. Main points**

- **Approach and methodology**. The results presented in this report are primarily based on the data collected from large European insurance groups and solo undertakings. The selected sample provides (at least) 50% coverage at country level for 24 jurisdictions. The data collected refers to:
    - Year-end 2020 data on sum insured, number of buildings insured or losses among others.
    - Historical information on three diverse European natural disasters with different impacts in terms of regions impacted, number of countries impacted and year of occurrence (2013, 2017 and 2020).
    - Insurers' views and expectations for the next 10-20 years on the potential impact of long-term physical risks on their business strategies.

  The analysis focuses on three key weather related perils: windstorm, wildfire and coastal and river flood.
- **Main findings**.
    - Three major European natural catastrophes. The report finds that, historically, companies included in the sample have been well placed for handling the pursuing claims, but due to the increased frequency and severity of events, they will require companies to adapt their underwriting and reinsurance practices, particularly for flooding and windstorm.
    - Insured losses. Windstorm is already the most insured peril followed by river flood, wildfire, and coastal flood. The future evolution of these events may have major impacts on the (re)insurance sector. The insurance sector's ability to continue to offer financial protection against the consequences of these events relies on their ability to understand the likely impact of climate change and adapt their business strategies.
    - Current and expected impact of physical climate change risk. All property-related line of businesses are expected to be impacted by physical climate change risk and there is an emerging consensus that premiums are likely to increase and that adaptation and mitigation measures will play a crucial role in reducing the risk levels in the future.
    - Measurement methodologies. Physical risks are long-term risks for which a standardised methodology for their assessment is not yet widely and fully developed. The complexity and uncertainty in terms of time horizons and potential future pathway and developments make it difficult to precisely assess and quantify them.
    - Further work needed. Results highlight that more than 50% of the participants have not undertaken any climate change analyses so far and that many of them had difficulties in providing data to assess the risks that are likely to materialise in the coming years.

**3. Next steps**

- EIOPA plans, based on the feedback on this paper and pursuing discussions, to continue its analytical work in this field.

**05/04/2022**
**Guidelines for common procedures and methodologies for the supervisory review and evaluation process (SREP) and supervisory stress testing**

**1. Context**

The directive Capital Requirement Directive (CRD), mandates the EBA to draft guidelines for competent authorities, specifying the common procedures and methodologies for SREP and for the assessment of the organization and treatment of risks referred in the Directive. Additionally, the CRD empowers the EBA to issue guidelines to ensure that common methodologies are used by competent authorities (CAs) when conducting annual supervisory stress tests for SREP purpose. The first SREP Guidelines were published in December 2014 an updated in 2017. However, it was necessary to align the last version with the last regulatory developments that have taken placed since then, such us the publication of CRD V and CRR II and the issuance by the EBA of other relevant guidelines and technical standards.

In this regard, the EBA has updated the **Guidelines for common procedures and methodologies for the SREP and supervisory stress testing**, taking into account the requirements of CRR II and the CRD V. The revision of the SREP Guidelines, while keeping the original framework with the main SREP elements intact, reflects the amendments at Level 1, which include, among other things, the introduction of the assessment of the risk of excessive leverage and the revision of the methodology for the determination of the Pillar-2 capital guidance (P2G). Additionally, the principle of proportionality is enhanced as well as the encouragement of cooperation among prudential supervisory authorities and money laundering and countering the financing of terrorism (ML/FT) supervisors, as well as resolution authorities.

**2. Main points**

CAs should ensure that the SREP of an institution covers the following components:

- **Categorisation of the institution**. CAs should categorise all institutions under their supervisory remit into 4 different categories. As a novelty, the categorisation takes into account the definitions of small and non-complex institutions as well aslarge institutions, as set out in the CRR II, to ensure consistency in the scope of application of proportionality within the overall regulatory framework.
- **Scoring framework**. These guidelines introduce two types of scores, the first one indicating the likelihood that the risks to capital, liquidity and funding will have a significant impact on the institution, while the second type indicates the magnitude of risks to the institution's viability.
- **Monitoring of key indicators**. CAs should engage in regular monitoring of key financial and non-financial indicators to monitor changes in the financial conditions and risk profiles of institutions, as well as to identify the need for updates to the assessment of SREP elements in light of new material information outside of planned. As a novelty, indicators used for monitoring should include, where available, indicators based on quantitative or qualitative information from reporting provided to competent authorities that may point to ML/TF risk.
- **Business model analysis (BMA)**. CAs should conduct regular BMA to assess business and strategic risks and determine the viability of the institution's current business model. As a novelty, CAs should also use the BMA to assess prudential implications of ML/TF risks known to them, linked to the business model of the institution. Furthermore, when identifying key vulnerabilities CAs shall consider the ESG risks and their impact on the viability and sustainability of the business model and long-term resilience of the institution.
- **Assessment of internal governance and institution-wide controls**. CAs should assess whether or not an institution's internal governance arrangements are adequate for and commensurate with the institution's risk profile, business model, nature, size and complexity. As a novelty, these assessment should include the verification of the existence of governance arrangements and mechanisms to ensure that the institution complies with applicable Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) requirements.
- Assessment of risks to capital. CAs should assess and score the risks to capital that have been identified as material for the institution. As a novelty:
    - CAs should consider ML/TF risks within the context of the assessment of the different risks.
    - Regarding the assessment of credit and counterparty risk it is aggregated the assessment of: i) the equity risk in the banking book; ii) the real-estate risk and iii) model risk for regulatory approved models
    - When assessing market risk for institutions which do not meet the conditions of the small trading book as set out CRR II CAs should consider the relevance and materiality of fixed subcategories of risks set in the Guidelines.
    - When assessing operational risk, CAs should also consider conduct risk, model risk and ICT risk.
    - Assessment of the interest rate risk of an institution's non-trading book activities (IRRBB) should be differentiated from assessment of credit spread risk arising from positions in the non-trading book.

- **Assessment of the adequacy of the institution's own funds**. CAs should determine through the SREP capital assessment whether the own funds held by the institution provide sound coverage of risks to capital to which the institution is or might be exposed, if such risks are assessed as material to the institution. As a novelty:
    - The reference to the CRR II Pilar 1 own funds requirements is added.
    - When setting the additional own funds requirements and where relevant, guidance, CAs should: i) take into account any supervisory measures that the CA has applied or is planning to apply to an institution; ii) clearly justify all elements of additional own funds requirements for Pilar 2 requirements (P2R) and P2R-leverage ratio (LR) as well as for P2G and P2G-LR; and iii) apply P2R and P2R-LR as well as P2G and P2G-LR in a consistent manner to ensure broad consistency of prudential outcomes across institutions.
    - CAs should determine additional own funds requirements for risks other than the risk of excessive leverage, where they identify specific situations set in the Guidelines.
    - In accordance with the CRD V, CAs should assess the risk of excessive leverage separately from other types of risk
    - CAs should determine the Total SREP leverage ratio requirement (TSLRR) and the Overall leverage ratio requirement (OLRR).
- **Assessment of risks to liquidity and funding and the SREP liquidity assessment**. CAs should assess the risks to liquidity and funding that have been identified as material for the institution. As a novelty CAs should include the information from AML/CFT, when conducting these assessment. Also, CAs should asses whether institutions have an appropriate reporting framework for liquidity and funding risk. Regarding the SREP assessment, two new approaches are added to articulate the specific quantitative stable funding requirements.
- **Overall SREP assessment and application of supervisory measures**. CAs should exercise their supervisory powers on the basis of deficiencies identified during the assessments of the individual SREP elements and taking into account the overall SREP assessment. As a novelty, in order to address these deficiencies, CAs should consider whether supervisory measures are needed to address prudential deficiencies/vulnerabilities related to ML/TF risks. Furthermore, two new chapters are included: i) instructions on supervisory reaction to a situation where P2G is not met and ii) instructions on interaction between supervisory and AML/CFT measures.
- **Supervisory stress testing**. CAs should, also, use supervisory stress testing to facilitate the SREP and, in particular, supervisory assessment of its key elements, which are described in these guidelines. Furthermore, supervisory stress testing should help CAs to assess supervisory organisational procedures and to plan supervisory resources, considering also other relevant information.

### 3. Next Steps

- The guidelines will be translated into the official EU languages and published on the EBA website. The deadline for competent authorities to report whether they comply with the guidelines will be **2 months** after the publication of the translations.
- These updated guidelines apply from **1 January 2023**.

**20/06/2022**
## Guidelines on policies and procedures in relation to compliance management and the role and responsibilities of the AML/CFT Compliance Officer

### 1. Context

Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing (ML/TF) requires that credit or financial institutions have in place policies, controls and procedures to mitigate and manage effectively the risks of ML and TF. Past evidence has revealed differences in the interpretation, as well as uneven implementation of the requirements of this Directive. The EBA has a mandate to lead, monitor and coordinate the EU financial sector's fight against ML/TF. In line with this mandate, in August 2021 the EBA issued the Draft Guidelines on the role of anti-money laundering and countering the financing of terrorism (AML/CFT) compliance officers, in order to clarify the role of AML/CFT compliance officers in credit and financial institutions.

In this regard, the EBA has published its final **Guidelines on policies and procedures in relation to compliance management and the role and responsibilities of the AML/CFT Compliance Officer**, which comprehensively address, for the first time at the level of the EU, the whole AML/CFT governance set-up. These guidelines specify the role, tasks and responsibilities of the AML/CFT compliance officer, the management body and senior manager in charge of AML/CFT compliance as well as internal policies, controls and procedures. They complement, but do not replace, relevant guidelines issued by the European Supervisory Authorities on wider governance arrangements and suitability checks.

### 2. Main aspects

- **Scope of application**. These guidelines apply to credit or financial institutions and to all existing management body structures, irrespective of the board structure used across Member States.
- **The role and responsibilities of the management body in the AML/CFT framework**. The management body should be responsible for approving the institution's overall AML/CFT strategy and for overseeing its implementation. Specific duties can be distinguished depending on the function of the management body:
  - <u>The role of the management body in its supervisory function</u>. The main tasks are among others: i) overseeing and monitoring the implementation of the internal governance and internal control framework; and ii) ensuring that the member of the management body or, where applicable the senior manager, comply with specific knowledge requirements (e. g. sufficient knowledge and experience regarding ML/TF risks, and the implementation of AML/CFT policies).
  - <u>The role of the management body in its management function</u>. The main tasks are: i) implement the organisational and operational structure necessary to comply with the AML/CFT strategy adopted by the management body; ii) ensure implementation of internal AML/CFT policies and procedures; iii) review the AML/CFT compliance officer's activity report, at least annually; iv) ensure adequate, timely and sufficiently detailed AML/CFT reporting to the competent authority and vi) where applicable, ensure compliance with the ESAs guidelines on outsourcing arrangements and on internal governance.
- **The role and responsibilities of senior manager responsible for AML/CFT**. Where no management body is in place, the institution should appoint a senior manager who is ultimately responsible for the implementation of the laws, regulations and administrative provisions necessary to comply with Directive on ML/TF.
- **The role and responsibilities of the AML/CFT compliance officer**.
  - The AML/CFT compliance officer should be <u>appointed at management level</u> and should be part of the <u>second line of defence</u>. As such, some conditions should be met: i) the independence of the compliance officer from the business lines or units he/she controls ii) direct access to all information that is necessary to the performance of his/her function and iii) the possibility to report significant incidents.
  - When the management body decides <u>not to appoint a separate AML/CFT compliance officer</u>, the reasons should be justified and documented, and explicitly refer to specific criteria set in the Guidelines.
  - Compliance officer should possess specific <u>skills, knowledge and experien</u>ce, as well as fulfill suitability requirements.
  - The role and tasks of the AML should <u>be clearly defined and documented</u>. These Guidelines develops each of them (e.g development of a risk assessment framework and policies and procedures)
  - Where the <u>outsourcing of operational functions</u> of the AML/CFT compliance officer is permitted, the Guidelines lists some key principles to be considered.
- **Organisation of the AML/CFT compliance function at group level**. Where a financial services operator is part of a group, a Group AML/CFT compliance officer in the parent company should be appointed to ensure the establishment and implementation of effective group-wide AML/CFT policies and procedures. The EBA describes also the main task and expects the compliance officer to cooperate fully with the compliance officer of each entity.

### 3. Next steps

- The deadline for competent authorities to report whether they comply with the guidelines will be **six months** after the publication of the translations of these guidelines.
- The guidelines will apply from **1 December 2022**.

**24/06/2022**

## Principles that should be applied in ensuring representativeness of the IRB-relevant data impacted by the COVID-19 pandemic and related measures

### 1. Contexto

The COVID-19 pandemic and in particular the measures implemented by member states and by the EU to counter the health and the related economic crisis, have impacted the IRB-relevant data. This is due to the change in the contracts of institutions with their obligors in relation to the application of moratoria and public guarantee schemes (PGS), and also because of the impact that COVID-19 support measures have had in the input parameters relevant for the application of a rating model (other than moratoria and PGS), such as in the case of direct payments that impact the obligor's financial data or behavior.

In this context, the EBA has published **the Principles that should be applied in ensuring representativeness of the IRB-relevant data impacted by the COVID-19 pandemic and related measures**. The objective is to maintain their validity and usefulness.

### 2. Main aspects

Este Borrador se basa en cuatro principios:

- **Principle 1**. The guidance on the assessment of data representativeness laid down in the EBA Guidelines on PD and LGD should be applied also in the case of COVID-19-impacted data.
- **Principle 2**. A significant decrease in applied IRB risk parameters compared to the pre-crisis levels indicates a potential lack of representativeness and should be analysed in more depth:
    - Institutions should analyse the drivers of this decrease, paying particular attention to any potential representativeness issues on input parameters.
    - Institutions should assess if comparable values of those input parameters triggering the improvements can be observed in the historical data set used for the relevant model development.
- **Principle 3**. Institutions should assess whether a re-calibration, taking into account data impacted by the pandemic is necessary. Where there are indications of non-representativeness, institutions should postpone any recalibration to lower long-run averages including the most recent data until it is sufficiently certain that the trend of decreased realisations (e.g. default rates) is not driven by the extraordinary COVID-19 support measures.
- **Principle 4**. The EBA recommends that potential downward recalibrations of downturn LGD in the context of the pandemic be postponed at least until the effects of the crisis have fully materialised in the observed loss rates.

### 3. Next steps

- The EBA is currently working on a supervisory handbook, which aims to clarify the existing requirements applicable for the validation of regulatory credit risk models under the IRB approach. These principles will be part of this handbook, which the EBA will publish before the **end of the year 2022**.

**23/05/2022**
**Public Statement on the Transparency on implementation of IFRS 17 Insurance Contracts**

**1. Context**

In May 2017, the International Accounting Standards Board (IASB) published the IFRS 17 which replaces the requirements of IFRS 4. This new standard includes principles-based requirements that aim to improve the comparability of the measurement and presentation of insurance contracts across issuers. Its effective date of application in the EU is 1 January 2023.

In this context, the ESMA has published **the public statement on the transparency on implementation of IFRS 17 Insurance Contracts** in order to promote its consistent application and implementation by issuers. In this statement, the ESMA highlights the need for issuers to provide relevant and comparable information in their financial statements that enables users to assess the possible impact that IFRS 17 will have in the period of initial application.

**2. Main points**

- **Transparency on implementation and effects of IFRS 17**. IFRS 17 introduces a new measurement and presentation model, so it is particularly relevant to disclose known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application.
- **Good disclosure practices**. ESMA recognizes good disclosure practices to consider in case an issuer expects the application of IFRS 17 to have a significant impact on its financial statements.
    - <u>Relevant disclosures on significant judgements, estimates and accounting policies should be provided</u> to enable users of the financial statements to assess the effects that insurance contracts will have on the financial position, financial performance and cash flows of the issuer.
    - <u>The disclosures</u> should explain how the accounting currently reported on different types of insurance contracts are likely to differ under IFRS 17 in relation to:
        - Key items in the statement of financial position, such as **insurance liabilities**, **insurance assets** and **equity**.
        - Key items of the **statement of comprehensive income**.
        - Any changes in the **expected profitability patterns** of portfolios of insurance contracts.
- **2022 IFRS interim financial statements**. ESMA is of the view that for those issuers it would be appropriate to provide disclosures about the changes in the accounting policies and their impacts on the financial statements prior to their 2022 annual financial reports.
- **2022 IFRS annual financial statements**. ESMA expects that the 2022 annual financial statements provide the quantitative impact of the application of IFRS 17 and explain the changes compared to the amounts reported under IFRS 4, disaggregated as appropriate.

**3. Next steps**

- ESMA, and the National Competent Authorities, will consider how the recommendations in the public statement have been implemented by issuers in their **interim** and **annual financial statements 2022**.

**09/05/2022**
## Joint Consultation Paper on sustainability disclosures for STS securitizations

### 1. Context

In November 2019, the European Parliament (EP) and Council published the Regulation on sustainability-related disclosures in the financial services sector (SFDR), which requires manufacturers of financial products and financial advisers to end-investors to consider the principal adverse impacts (PAI) of investment decisions on sustainability factors. However, securitisation is not a “financial product” covered by the rules of the SFDR. Therefore, the capital markets recovery package (CMRP) introduced in 2021 the option for originators of simple, transparent and standardised securitisations (STS) to disclose specific information regarding the consideration of adverse impacts on sustainability factors. The ESAs were mandated to develop RTS to adapt the SFDR to the specificities of securitisations.

In this context, the ESAs have published the **Joint Consultation Paper on sustainability disclosures for STS securitizations**, which provides the content, methodologies, and presentation of information about the principal adverse impacts on sustainability factors of the assets financed by the underlying exposures of securitisations.

### 2. Main points

- **Format of disclosure**. Disclosure is achieved by use of a “Principal adverse impact statement” (PAI statement) presented in the template set out in the Annex of this draft RTS.
- **Sustainability policies**. The originator shall provide a concise explanation of whether and, if so, how PAIs on sustainability factors are taken into account in the originator’s credit granting criteria and in the selection of underlying exposures to be added to the pool at the time of marketing.
- **Selection of PAI indicators to be reported in the annual principal adverse sustainability impacts statement**. There is a set of mandatory indicators and a set of additional indicators (social/governance and environmental). Of the additional ones, the use of at least one social/governance and at least one environmental indicator is required. The mandatory indicators for each type of asset are:
    - <u>Non-green asset ratio</u>. Originators are required to disclose the share of non-green assets ratio (i.e. 100% assets minus GAR) in the PAI statement.
    - <u>Indicators relating to residential real estate</u>. It includes two types of indicators: i) the exposure to energy-inefficientreal estate assets; and ii) the proportion of loans to households secured by residential immovable property that are not contributing to the environmental objective of climate change mitigation.
    - <u>Indicators relating to auto loans and leases</u>. These include: i) exposure to vehicles that do not comply with the ‘zero-and-low emission’ definition; ii) exposure to vehicles which fail to meet air pollution thresholds and standards.

### 3. Next steps

- Comments to this document can be sent before **2 July 2022**.
- The final RTS will be submitted to the European Commission (EC) and will enter into force on the **twentieth day** following that of its publication in the Official Journal of the European Union.

BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY

**11/05/2022**
**Insurance Stress Test 2022**

**1. Context**

The PRA runs its own stress tests on a periodic biennial basis for a number of insurance firms. These exercises assess the financial resilience of the life and general insurance sector in severe but plausible common scenarios, tailored to the vulnerabilities of the sector. The Insurance Stress Test 2019 was the third PRA exercise for general insurers and the first one for life insurers since the introduction of Solvency II. This exercise incorporated asset and liability shock scenarios as well as a number of exploratory scenarios, including a climate change exercise.

Following the request for technical input launched on January 2022, the PRA has launched the 2022 Insurance Stress Test. For that purpose, the PRA has selected 17 large regulated life insurers and 17 large regulated general insurers to provide information about the impact of a range of stress scenarios on their business. Some novelties compared to the previous exercise that was conducted in 2019 have been introduced, such as the obligation to provide a results and basis of preparation (RBP) report in which each firm is required to set out in its governance process and quality assurance in completing this exercise. In addition to this report, quantitative templates specifying the nature and structure of the numerical information needs to be provided, together with the instructions for completing these templates.

**2. Main points**

Life Insurance stress test

- **Structure of the life insurance stress test (scenario)**. This exercise consists of one scenario with four stages, designed to capture adverse economic, liquidity, counterparty and longevity shocks. All four stages are designed to represent a set of events that could develop over a year.
  - **Stage 1**. This is designed to represent an initial market shock where the impact is assessed prior to any management actions in relation to new reinsurance agreements or external trading in financial investments (including derivatives).
  - **Stage 2**. This follows on from the initial market shock to capture a lagging shock to credit ratings, commercial property and residential property.
  - **Stage 3**. 12 months after the initial market shock. The impact is assessed after a limited range of management actions such as orderly implementation of external trading of liquid financial investments including derivatives.
  - **Stage 4**. This is an alternative end state to Stage 3 and incorporates an increase to longevity expectations.
- **General description of templates**. The templates are in Excel format and should be submitted to the PRA through the portal provided for this purpose. The information to be provided includes, among others: i) basic information about the firm; ii) pre-stress information (e.g. balance sheet); iii) results of the insurance firm stress test.
- **RBP report**. Firms should disclose in the RBP report what management actions they have assumed at each stage of the scenario and how this would impact their own funds and capital requirements.

General Insurance stress test

- **Structure of the life insurance stress test**. The exercise contains several scenarios:
  - Natural catastrophe scenario. These are: i) US hurricanes scenario; ii) California Earthquake scenario; iii) UK windstorm and flood scenario.
  - Cyber underwriting scenarios. These are: i) “cloud down” scenario; ii) “data exfiltration” scenario; iii) “systemic ransomware” event. In addition to these, the company is asked to provide details of a scenario of its own if the loss for such a scenario is higher than in any of the scenarios proposed by the PRA.
- **General description of templates**. The information to be provided includes, among others: i) basic information about the firm; ii) 2021 year-end balance sheet; iii) planned movement in basic own funds for the year ending 31 December 2022; iv) 7 sets of templates for scenarios

**3. Next steps**

- The requested information must be submitted by **28 September 2022**.

BANK OF ENGLAND

**30/05/2022**
**Results of the 2021 Climate Biennial Exploratory Scenario: Financial risks from climate change**

**1. Context**

The Bank of England (BoE) regularly conducts two types of exercise, the annual solvency stress tests and biennial exploratory scenarios (BES). Running BES allows to probe the resilience of the UK financial system to a wide range of risks. In this respect, in June 2021 the BoE launched the first round of the Climate Biennial Exploratory Scenario (CBES). Participating banks and insurers were required to produce loss projections under the three published scenarios, as well as responses to a qualitative questionnaire. In February 2022 the Bank launched a second round, which focused on exploring in greater depth banks' and insurers' prospective responses to climate risks.

In this context, the BoE has published the **Results of the 2021 CBES** which is the first exploratory scenario exercise on climate risk, involving the largest UK banks and insurers hereinafter referred to as "firms") aiming to assist in ensuring the financial system is resilient to climate-related financial risks. It was also intended to improve firms climate risk management, size the risks that participants in the exercise face and better understand the potential responses to climate-related risks and their broader implications. In general, all participating firms have more work to do to improve their climate risk management capabilities.

**2. Main points**

- **Scope**. i) The exercise required participants to make granular assessments of their largest counterparties; ii) particular emphasis was placed on firms´ ability to evaluate the net-zero transition plans of their corporate counterparties; and iii) the exercise focused on participants' responses to climate risks to a greater extent.
- **Main findings on firms´climate risk management**. Among the main findings are:
  - **Banks** have made good progress in integrating climate risk into their existing risk governance structures and reporting frameworks, as well as in identifying their portfolios which may be most sensitive to climate risks. However, face challenges in accurately quantifying the level of risk they are exposed to. On the other hand, progress in relation to risk appetite and risk assessment has been significantly hampered by a lack of standardised data of sufficient quality.
  - **Insurers** have also made good progress in incorporating climate risk into their existing risk governance frameworks, but also noted numerous data challenges that they faced in estimating potential losses on their invested assets. It highlights the variety of physical risk models across firms.

  Firms will need to prioritise investment in their **internal modelling and data capabilities** and doing more to **scrutinise data and projections** supplied by third-party providers. The inability to capture appropriate and robust data in certain areas is a common limitation, which means many climate risks are only being partially measured.
- **Main findings on firms´ exposures to climate risks**. The loss estimates presented are based on the simplifying assumption that banks' and insurers' balance sheets stay fixed over the scenario horizon, remaining as they stood at end-2020. In reality, firms business models are likely to respond to climate risks over time. Among the main findings are:
  - Across scenarios, participants' projections show that if firms do not respond effectively, climate risks could cause a persistent and material drag on their profitability. Loss projections are equivalent to an annual drag on profits of around 10-15% on average. Losses of this magnitude could make individual firms, and the financial system overall, more vulnerable to other future shocks.
  - The overall costs to them from the transition to net zero should be bearable without substantial impacts on firms' capital positions. These costs will be lower if early, well-ordered action is taken.
  - Projected loss rates from individual firms spanned a wide range. This suggests significant uncertainty around the true magnitude of these risks, reflecting the fact that participants' climate risk assessment techniques are still developing.
- **Main findings on firms' responses to climate-related risks**. This part of the CBES exercise explores the implications of firms' responses to climate risk for the provision of financial services, and to assess firms' ability to take a strategic, long-term approach to managing climate risks and adapting their business models. Among the main findings are:
  - UK firms typically responded to all three scenarios in this exercise by following their existing plans around the transition to net-zero emissions.
  - They also reported plans to reduce their exposure to carbon-intensive sectors and households which were most exposed to physical risks. That means that many of them may struggle to access finance as the transition progresses, especially from banks.
  - Participating firms identified more business opportunities in the transition scenarios than in the No Additional Action scenario (NAA) scenario, and banks were able to quantify more new opportunities than life insurers in this exercise.

## 3. Next steps

- The Bank will give firm-specific feedback to participants, and will use findings from the CBES to help target their efforts.
- Also, evidence gathered through the CBES will help the PRA to assess firms' progress against the PRA's expectations in this area, and help to reveal where more intensive action is needed by firms.
- This exercise will not be used to set capital requirements related to climate risk.

BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY

**24/06/2022**
**Consultation Paper (CP) 6/22 on on Supervisory Statement (SS) on Model risk management principles for banks**

**1. Context**

The PRA considers firms' use of models as a key basis for informing important business decisions, to have increased significantly in recent years. This is due, in part, to new regulations and reporting requirements (eg IFRS 9), and regulatory expectations in respect of stress testing. The PRA has found evidence of poor model risk management (MRM) an these could lead to adverse consequences that pose risks to the safety and soundness of firms and overall financial stability.

In this context, the PRA has launched the **Consultation Paper (CP) 6/22 on Supervisory Statement (SS) on Model risk management principles for banks**, which sets out the PRA´s proposed expectations regarding banks' management of model risk. The PRA has developed a proposed set of principles which it considers to be key in establishing an effective MRM framework. These proposed principles covers all elements of the model lifecycle and would be applicable to all types of models that are used to inform key business decisions, whether developed in-house or externally (including vendor models) and models used for financial reporting purposes. Lastly, these proposals are intended to complement, not supersede, existing requirements and supervisory expectations that are currently in force for selected model types.

**2. Main aspects**

- **Scope of application**. This CP is relevant to all firms in the wider banking sector and their external auditors, although the PRA proposes that firms that qualify as a "simpler-regime firm" would apply Principle 1 in full, but would be expected to only focus on the basic elements of Principle 2.
- **Implementation and ongoing self-assessment**. The PRA proposes that:
    - By the implementation date of the Policy, all firms applying the proposed principles would have undertaken an initial self-assessment against the proposals and, where necessary, prepared remediation plans to address any identified shortcomings. That self-assessments should be updated annually thereafter, and any remediation plans should be reviewed ,updated on a regular basis and hared with firms' boards in a timely manner.
    - A board appointed accountable individual for MRM would be responsible for ensuring remediation plans are in place with clear ownership for any actions needed.
- **Model risk management principles**. The PRA proposes that firms meet five model risk management principles, designed to cover all elements of the model lifecycle. The proposed principles set out what the PRA considers to be the core disciplines necessary for a sound MRM framework to manage model risk effectively across all model and risk types. The PRA's proposed MRM principles are:
    - Principle 1: Model identification and model risk classification. Firms have an established definition of a model that sets the scope for MRM, a model inventory, and a risk-based tiering approach to categorise models to help identify and manage model risk.
    - Principle 2: Governance: Firms have strong governance oversight with a board that promotes an MRM culture from the top through setting clear model risk appetite. The board approves the MRM policy and appoints an accountable individual to assume the responsibility to implement a sound MRM framework that will ensure effective MRM practices.
    - Principle 3: Model development, implementation and use. Firms have a robust model development process with standards for model design and implementation, model selection, and model performance measurement.
    - Principle 4: Independent model validation. Firms have a validation process that provides ongoing, independent, and effective challenge to model development and use.
    - Principle 5: Model risk mitigants. Firms have established policies and procedures for the use of model risk mitigants when models are under-performing, and have procedures for the independent review of post-model adjustments.
- **Senior Management Function (SMF) accountability for model risk management framework**. The PRA proposes that firms would identify and allocate responsibility for the overall MRM framework to the most appropriate SMF holder, with the responsibility for the risks resulting from models operated by the firm, and ensure the responsibilities in the SMF's Statement of Responsibilities reflect this.
- **Financial reporting and external auditors**. The PRA proposes that firms report on the effectiveness of MRM for financial reporting to the audit committee on a regular basis, and at least annually, and ensure that this report is available on a timely basis.
- **Artificial Intelligence (AI) and Machine Learning (ML) models**. The proposed SS provides a cross-cutting definition of a model, and defines the overarching framework for firms' MRM. As such, the proposals in this CP set out principles and expectations that apply to all models, including the use of AI technology in modelling techniques such as ML.

## 3. Next steps

- The responses to this CP shall be submitted by **21 October 2022**.
- The PRA proposes that the implementation date would be set at **12 months** following the publication of the final SS.
- In future, the PRA may seek to rationalise existing references to MRM under a single overarching policy framework, where the proposed broad expectations would be applicable to all model and risk types.

**02/06/2022**

## Proposed rules on the Enhanced Disclosures by Certain Investment Advisers and Investment Companies about ESG Practices

### 1. Context

Currently, funds and registered advisers are subject to disclosure requirements concerning their investment strategies. However, there are no specific requirements about what a fund or adviser following an ESG strategy must include in its disclosures. Also, the information concerning how they consider ESG factors in their investment strategies is inconsistent. All these factors increases the risk of greenwashing and also makes it difficult for investors to understand the fundamental characteristics of an ESG fund or an adviser's ESG strategy in order to make a more informed investment decision.

In this context, the SEC have proposed for public comments **New rules on the enhanced disclosures by certain investment advisers and investment companies about ESG investment practices**. The proposed rules and form amendments are designed to create a consistent, comparable, and decision-useful regulatory framework for ESG advisory services and investment companies to inform and protect investors while facilitating further innovation in this area of the asset management industry.

### 2. Main points

- **Proposed Fund Disclosures to Investors**. The proposed rules would require registered funds to disclose to investors how they incorporate ESG factors into their investment selection processes and in their investment strategies. Funds that meet the proposed definition of Integration Fund would provide more limited disclosures than ESG-Focused Funds:
    - Proposed Integration Fund disclosure: An Integration Fund, for this purpose, would be a fund that considers one or more ESG factors along with others in its investment decisions, which are generally no more significant than other factors. These funds would be required to summarize in the fund's prospectus how the fund incorporates ESG factors into its investment selection process, including what ESG factors the fund considers and, where applicable, the ways in which funds consider GHG emissions.
    - Proposed ESG-Focused Fund disclosure: An ESG-Focused Fund would mean a fund that focuses on one or more ESG factors by using them as a significant or main consideration in selecting investments or in its engagement strategy with the companies in which it invests. This definition includes also the Impact Funds, which seeks to achieve a specific ESG impact or impacts. ESG-Focused Funds would provide key information about their consideration of ESG factors in a tabular format in the fund's prospectus. An Impact Fund would have additional disclosure requirements (e.g how the fund measures progress towards the stated impact).
    - Unit Investment Trusts (UITs): The proposed amendment would require any UIT with portfolio securities selected based on one or more ESG factors to explain how those factors were used to select the portfolio securities.
    - Annual reports: Additionally, the proposed rules would require ESG-Focused Funds to provide the impact, engagement, and GHG emissions disclosure in their annual reports. These requirements would not be extended to UITs. Regarding the GHG emissions, proposed rules require disclosure of two GHG emissions metrics for the portfolio and establish a methodology for its calculation:
        - **WACI metric**: portfolio's exposure to carbon-intensive companies, expressed in tons of carbon dioxide equivalents ($CO_2e$) per million dollars of the portfolio company's revenue.
        - **Carbon footprint**: total carbon emissions for a portfolio normalized by the market value of the portfolio, expressed in tons $CO_2e$ per million dollars invested.
    - Inline XBRL tagging: The proposed rules would require funds to submit all proposed ESG-related registration statement and fund annual report disclosure filed with the Commission in Inline XBRL. This would enable automated extraction and analysis of data regarding the ESG disclosures for investors and other market participants.
- **Adviser Brochure**. Currently advisers registered with the SEC must deliver these brochure to help them make more informed decisions about whether to hire or retain that adviser. The proposed rules would amend it to include among others aspects:
    - A description of the ESG factor or factors it considers for each significant investment strategy or method of analysis for which the adviser considers any ESG factors.
    - Criteria or a methodology to evaluate, select, or exclude investments based on the consideration of ESG.
    - A description of any relationship or arrangement, that is material to the business, that the adviser or any of its management persons have with any related person that is an ESG consultant or other ESG service provider.
    - For advisers that have specific voting policies or procedures that include one or more ESG considerations, when voting client securities they would include in their brochures a description of which ESG factors they consider and how they consider them.

- **Regulatory Reporting on Form N-CEN and Form ADV**. The SEC proposes to amend these forms for registered funds and advisers respectively, to collect census-type information about funds' and advisers' uses of ESG factors using the structured XML-based data languages. This data can be used to understand industry trends in the market for ESG investment products and services.
- **Compliance Policies and Procedures and Marketing**. The proposed rules includes specific examples for funds and advisers to address the accuracy of ESG-disclosures made to clients, investors and regulators and portfolio management processes. The latter would help ensure portfolios are managed consistently with the ESG-related investment objectives disclosed by the adviser and/or fund.

### 3. Next steps

- Comments to this Proposed rule should be received on or before **60 days** after date of publication in the Federal Register.
- SEC proposes that the compliance date of any adoption of this proposal for the following items would be:
    - **One year** following the effective date of publication: i) some proposed disclosure requirements in prospectuses and for UITs; ii) the proposed regulatory reporting on Form N-CEN, and iii) the proposed disclosure requirements and regulatory reporting on Form ADV Parts 1 and 2.
    - **18 months** following the effective date of publication for the proposed disclosures in the report to shareholders.

**17/06/2022**
**American Data Privacy and Protection Act Draft Legislation**

**1. Context**

The effort to produce a comprehensive data privacy framework has been years in the making. Until now, there were only sectoral regulations such us the California Consumer Privacy Act (2018), the Foreign Account Tax Compliance Act (2019), the Consumer Online Privacy Rights Act (2021) or the Consumer Data Privacy Act of Virginia (2021).

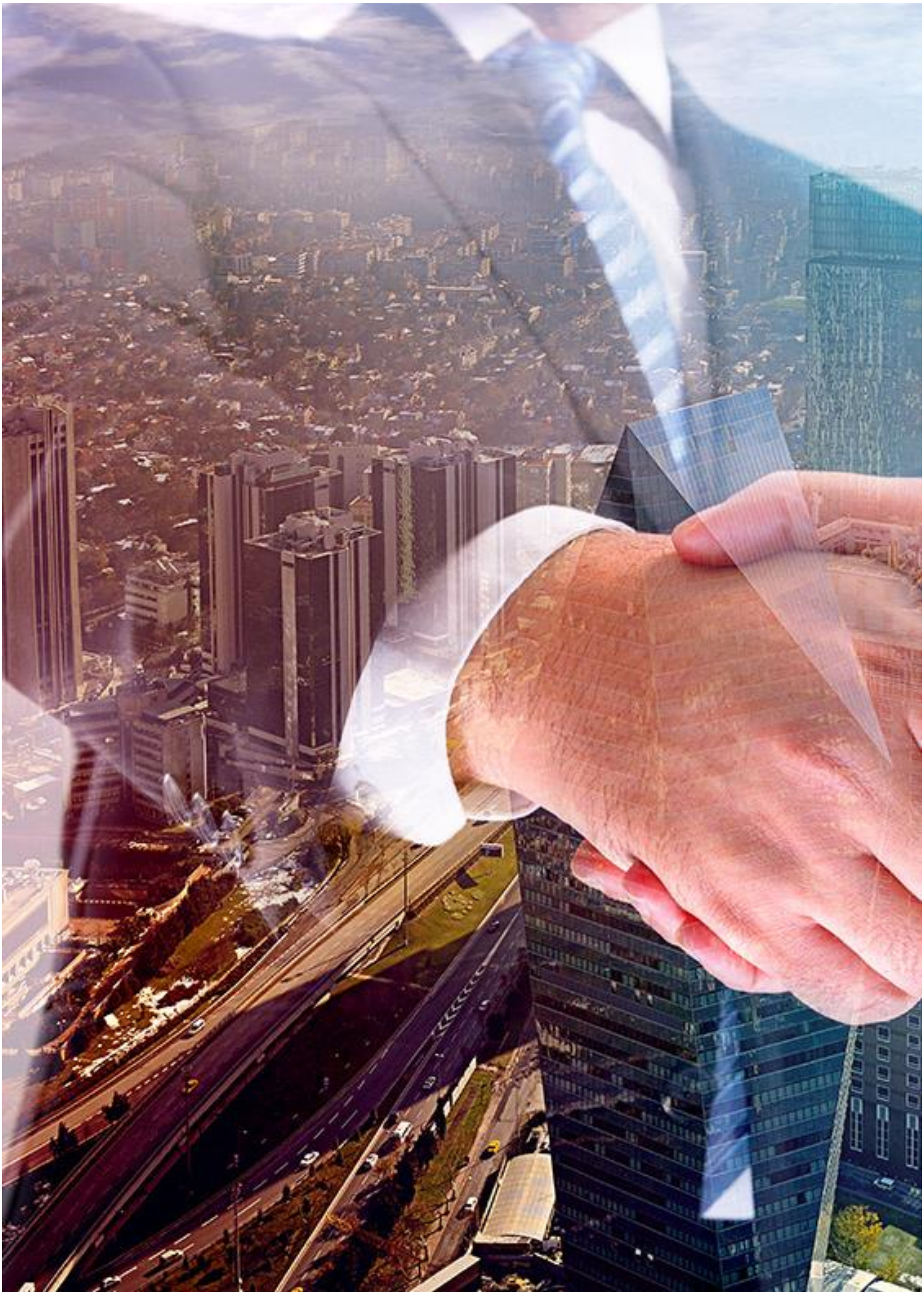
In this context, Senate and House of Representatives have published the **American Data Privacy and Protection Act Draft Legislation** which the first comprehensive privacy proposal to gain bipartisan, bicameral support. This Act would establish a strong national framework to protect consumer data privacy and security, including the guarantee of data privacy rights, the creation of oversight mechanisms and the adoption of meaningful enforcement.

**2. Main aspects**

- **Scope of application**. The Act defines both the entities and the data covered by this regulation:
    - <u>Covered entities</u>: any entity that collects, processes, or transfers covered data and is subject to the jurisdiction of the Federal Trade Commission (FTC), including nonprofits, and telecommunications common carriers.
    - <u>Covered data</u>: information identifying, linked, or reasonably linkable to an individual or device linkable to an individual. This includes derived data and unique identifiers, but does not include de-identified data, employee data, or publicly available information (each of which is separately defined).
    - <u>Sensitive covered data</u>: this type of data is also defined and subject to heightened requirements. Includes any information related to individuals under 17 as well as government-issued identifiers not required to be displayed in public such as among others, health information, financial information, biometric information, genetic information, geolocation information or private communications. Any other covered data collected, processed, or transferred for the purpose of identifying sensitive covered data is also considered sensitive.
- **Duty of Loyalty**. The Act imposes certain duties to covered entities related to:
    - <u>Data Minimization</u>. Prohibition of collecting, processing, or transferring covered data beyond what is reasonably necessary.
    - <u>Loyalty Duties</u>. Prohibition or restriction of engaging in certain data collection practices regarding specific types of covered data except for very limited circumstances.
    - <u>Privacy by Design</u>. Obligation to implement reasonable and proportionate policies, practices, and procedures for collecting, processing, and transferring covered data.
    - <u>Loyalty to Individuals with Respect to Pricing</u>. Obligation of not to condition or effectively condition the provision or termination of services or products to individuals by having individuals waive any privacy rights in the Act.
- **Consumer Data Rights**.
    - <u>Transparency, individual data ownership and control</u>. Covered entities must provide individuals with privacy policies detailing their data collection, processing, transfer, and security activities in a readily available and understandable manner. Additionally, individuals have the right to access, correct, delete, and portability of, covered data that pertains to them. Finally, sensitive covered data may not be collected, processed, or transferred to a third party without the express affirmative consent of the individual to whom it pertains.
    - <u>Data Protections for Children and Minors</u>. Some practices are prohibited, such as targeted advertising or transfer of cover data of individuals between 13 and 17 years without consent.
    - <u>Other obligations</u>. The Act establishes: i) special disclosure rules for third-party collecting entities; ii) prohibitions related to violation of civil rights and use of algorithms and iii) implementation and requirements of data security practices by covered entities.
- **Corporate Accountability**. All covered entities must designate one or more privacy and data security officers who must implement privacy and data security programs and ensure ongoing compliance with the Act. <u>Large data holders</u> must also conduct privacy impact assessments and annually certify that their company maintains reasonable internal controls and reporting structures for compliance with the Act. <u>Service providers and third parties</u> have the same responsibilities as other covered entities under the Act with some exceptions, such as the ones for the rights to consent.
- **Enforcement rules**. The Act establishes some requirements to the main authorities regarding the enforcement of the different rules. It also provides enforcement rights to individuals.

### 3. Next steps

- The Act will take effect **180 days** after the date of enactment.
- Within **90 days** of enactment, the FTC must publish a public web page describing all provisions of the Act in plain language, listed separately to help advise individuals and covered entities of their rights and obligations under the Act.
- Within **120 days** of enactment, the FTC must promulgate regulations to establish processes for covered entities to submit technical compliance programs for approval.
- Within **a year** after enactment and annually after that Department of Commerce (DOC) must publish a report on digital content forgeries. The report will define, describe, and assess digital content forgeries, including the methods to identify and take counter-measures against them.
- Starting **four years** after the date the Act takes effect, persons or classes of persons may generally bring a civil action in federal court seeking compensatory damages, injunctive relief, declaratory relief, and reasonable attorney's fees and litigation costs.



### Ultimate forward rate

(05/04/2022) EIOPA - EIOPA publishes the Ultimate forward rate (UFR) for 2023

The European Insurance and Occupational Pensions Authority (EIOPA) has published the Report on the calculation of the Ultimate Forward Rate (UFR) for 2023, where the calculation of the UFR for 2023 has been included. As of 1 January 2023, the applicable UFR for the euro will remain unchanged at 3.45%.

### Securitisation market

(12/04/2022) EBA - EBA publishes final draft technical standards on the risk retention requirements for securitisations

The European Banking Authority (EBA) published its final draft Regulatory Technical Standards (RTS) specifying the requirements for originators, sponsors and original lenders related to risk retention as laid down in the Securitisation Regulation and as amended by the Capital Markets Recovery Package (CMRP). These RTS aim to provide clarity on the risk retention requirements ensuring a better alignment of interests and reducing the risk of moral hazard, thus contributing further to the development of a sound, safe and robust securitisation market in the EU.

### Technical provisions

(21/04/2022) EIOPA - EIOPA finalises the revision of EIOPA's Guidelines on Contract Boundaries and Guidelines on the Valuation of Technical Provisions

The European Insurance and Occupational Pension Authority (EIOPA) has published two Final Reports on the revision of its Guidelines on Contract Boundaries and Guidelines on the Valuation of Technical Provisions, in order to provide additional guidance and amending certain aspects in relation to: Modelling Biometric Factors, the Apportionment of Expenses, Changes in Expenses, Assumptions used to calculate Expected Profits in Future Premiums and the Unbundling of contracts.

### Solvency II

(22/04/2022) BoE - DP2/22 – Potential Reforms to Risk Margin and Matching Adjustment within Solvency II

The Bank of England has published a Discussion Paper (DP) on potential reforms to risk margin, matching adjustments within Solvency II. The DP sets out the Prudential Regulation Authority's (PRA) current views on some key aspects of the potential reform package and the current assessment of overall reform outcomes arising from key aspects of HM Tresaury's review of Solvency II, particularly reforms to the fundamental spread and risk margin. The content of this DP is primarily of relevance to the annuity sector, but it will also be of interest to other insurance and reinsurance undertakings and industry stakeholders.

(15/06/2022) EIOPA - EIOPA consults on the advice on the review of the securitisation prudential framework in Solvency II

The European Commission sent a Call for Advice (CfA) to the Joint Committee (JC) of the European Supervisory Authorities in 2021. In it, the Commission sought the assistance of the JC to assess the recent performance of the rules on capital and liquidity requirements relative to the framework's original objective of contributing to the sound revival of the EU securitisation market on a prudent basis. In this context, the European Insurance and Occupational Pensions Authority (EIOPA) has prepared a consultation paper in response to the CfA and would welcome comments on the policy options proposed, the feedback received from stakeholders will be considered before submitting the final proposal for adoption.



### Prudential framework simplification

(29/04/2022) PRA - CP5/22 - The Strong and Simple Framework: a definition of a Simpler-regime Firm

The Prudential Regulation Authority (PRA) has set out its proposals for introducing a definition of a Simpler-regime Firm in the PRA Rulebook that would seek to simplify the prudential framework for non-systemic domestic banks and building societies, while maintaining their resilience. The PRA's implementation of this proposed definition would be the first step in designing a strong and simple framework. On the other hand, this definition should not create significant additional costs because the criteria in the definition should be based on information that firms are already having to calculate or required to report. This consultation closes on Friday 22 July 2022.

# Other publications of interest

## Capital, liquidity and leverage

### Stress test in Europe

(04/05/2022) ESMA - Guidelines on stress test scenarios under the Monetary Market Fund Regulation

The European Securities and Market Authority (ESMA) has updated their Guidelines on stress test scenarios under the Monetary Market Fund (MMF) Regulation. In this regard, the table on shocks to government bond credit spreads, which compile the absolute change in basis points for the Government Bonds of different countries has been modified with new data. compiles the absolute change in basis points of government bonds of different countries

### Insurance stress test

(04/05/2022) PRA - Insurance Stress Test

The Prudential Regulation Authority (PRA) has launched its biennial insurance stress test (IST) which contains the scenario specifications, the technical instructions and the templates for recording the results. In addition, firms are requested to provide a supporting narrative in the "Results and basis of preparation" (RBP) report.

### Internal approaches benchmarking

(05/05/2022) EBA - EBA updates technical standards in view of its 2023 benchmarking of internal approaches

The European Banking Authority (EBA) has published an update to its Implementing Technical Standards (ITS) which specify the data collection for the supervisory benchmarking exercise of 2023 in relation to the internal approaches used in market and credit risk and IFRS9 accounting. The updated ITS include all benchmarking portfolios and metrics that will be used for the 2023 exercise. For market risk the collection of new instruments and portfolios have been included, in particular those recently applied by the industry. For credit risk minor changes were made to the benchmark portfolios and no changes to the data fields for reporting purposes. No changes have been made to the IFRS 9 templates.

### Non performing and forborne exposures

(06/05/2022) PRA - Statement on EBA Guidelines relating to the management of non-performing and forborne exposures

The Prudential Regulation Authority (PRA) has set out a statement on the European Banking Authority (EBA) Guidelines relating to the management of non-performing exposures (NPEs) and forborne exposures (FBEs). The PRA notes that these Guidelines are not applicable to or in the UK. In particular because the GLs apply detailed requirements for firms with a gross NPE ratio of at least 5% and they require competent authorities to define a common threshold for the individual valuation and revaluation of the collaterals used for NPEs.

### CCPs

(19/05/2022) ESMA - Final Report (FR) on highly liquid financial instruments for CCP investment policies

The European Securities and Markets Authority (ESMA) has published its Final Report on highly liquid financial instruments for central counterparty (CCP) investment policies. The Report, which has been sent to the European Commission (EC) concludes that further work is to be done regarding the extension of the list of eligible financial instruments to certain public entities and potentially to covered bonds pending further research.

### Connected clients

(08/06/2022) EBA - EBA consults on technical standards on the identification of a group of connected clients

The European Banking Authority (EBA) has published a consultation paper on technical standards on the identification of a group of connected clients. The sections IV, VI and VII of the 2017 Guidelines on connected clients are replaced by new articles of these RTS that contain several clarifications to the Guidelines without substantial changes. Comments to this document can be sent before 8 September 2022.

### Capital adjustment

(13/06/2022) PRA - PRA statement on removing the PRA buffer adjustment in PS15/20

The Prudential Regulation Authority (PRA) has published a public statement in which it is announced that the PRA buffer adjustment that was set in light of COVID-19 under the Policy Statement 15/20 it is not necessary given the current situation. It has therefore been decided to removed it and it will no longer apply from end-December 2022.

# Other publications of interest

## Capital, liquidity and leverage

**INSURANCE CAPITAL STANDARD**

(15/06/2022) IAIS - IAIS issues public consultation on the draft criteria that will be used to assess whether the Aggregation Method provides comparable outcomes to the Insurance Capital Standard

The International Association of Insurance Supervisors (IAIS) has launched a public consultation on the draft criteria that will be used to assess whether the Aggregation Method provides comparable outcomes to the Insurance Capital Standard (ICS). The IAIS seeks input on the high-level principles that were developed to assess this aggregation method. Comments can be sent before 15 August 2022.

**ASSET ENCUMBRANCE**

(28/06/2022) EBA - EBA observed an increasing encumbrance ratio in 2021 albeit with some signs of stabilization

The European Banking Authority (EBA) published its annual Asset Encumbrance Report. The Report highlights that banks continued to make extensive use of central bank funding in 2021. As a result, the overall encumbrance ratio rose by 2.2 percentage points in 2021 to 29.1%. and more than 50% of the eligible-assets and collateral are now encumbered. According to EBA increasing encumbrance ratios might lead to adverse feedback loops of higher encumbrance and higher funding costs.

- **SUSTAINABILITY**

**PILLAR I FRAMEWORK**

(02/05/2022) EBA - EBA launches discussion on the role of environmental risks in the prudential framework

The European Banking Authority (EBA) has published a Discussion Paper (DP) on the role of environmental risks in the prudential framework for credit institutions and investment firms. The DP explores whether and how environmental risks are to be incorporated into the Pillar 1 prudential framework. It launches the discussion on the potential incorporation of a forward-looking perspective in the prudential framework. It also stresses the importance of collecting relevant and reliable information on environmental risks and their impact on institutions' financial losses. The consultation runs until 2 August 2022.

#### Run-off undertakings

(07/04/2022) EIOPA - EIOPA issues supervisory statement on supervision of run-off undertakings

The European Insurance and Occupational Pensions Authority (EIOPA) has published the supervisory statement on supervision of run-off undertakings. The aim of the statement is to ensure that a high-quality and convergent supervision is applied to run-off undertakings and portfolios while taking into account their specific nature and risks, the principle of proportionality and the prudent person principle. EIOPA had observed various issues and challenges in the supervision of run-off portfolios or undertakings related to the specific risk profile of these businesses, the difficulties of the process of authorisation of the change of ownership or portfolio transfer as well as the lack of specific provisions in the Solvency II framework.

#### Non-performing exposures

(17/05/2022) EBA - EBA publishes peer review on management of non-performing exposures

The European Banking Authority (EBA) has published the conclusion of its peer review of how prudential and consumer protection authorities supervise the management of non-performing exposures (NPE) by institutions and have implemented the EBA Guidelines on the management of NPE. The analysis suggests that the competent authorities across the EU have applied a risk-based approach to the supervision of NPE management. The EBA has not identified any significant concerns regarding the supervision practices but makes some general recommendations for further improvements.

- ### SUSTAINABILITY

#### Supervisory practices for sustainability

(07/04/2022) BCBS - Supervisory practices for assessing the sustainability of banks' business models

The Basel Committee on Banking Supervision (BCBS) has published a paper on supervisory practices for assessing the sustainability of banks' business models (BMAs). In particular, it aims to identify practices that might be relevant to authorities seeking to explicitly introduce BMA in their supervisory review process (SRP). In order to do so, the paper emphasises practical aspects of BMA, including procedures for developing and conducting a BMA as well as for integrating its outcomes into the overall SRP.

#### ESG risks

(27/04/2022) ECB - Opinion on a proposal for a Directive of the European Parliament and of the Council amending Directive 2013/36/EU as regards supervisory powers, sanctions, third-country branches, environmental, social and governance risks (CON/2022/16)

The European Central Bank (ECB) published its opinion on a proposal for a Directive of the European Parliament and of the Council amending a Directive on supervisory powers, sanctions, third-country branches, environmental, social and governance risks. The ECB strongly supports the Commission's banking reform package, which implements important elements of the global regulatory reform agenda into Union legislation. This will reinforce the EU Single Rulebook and substantially strengthen the regulatory framework in areas where supervisory authorities have identified gaps that could potentially lead to risks being insufficiently monitored and covered.

# Other publications of interest

## Supervision

### Management of climate risks

(29/04/2022) FSB - FSB launches consultation on supervisory and regulatory approaches to climate-related risks

The Financial Stability Board (FSB) has published a report that aims to assist supervisory and regulatory authorities in developing their approaches to monitor, manage and mitigate cross-sectoral and system-wide risks arising from climate change and to promote consistent approaches across sectors and jurisdictions. Its recommendations focus on three areas: i) supervisory and regulatory reporting and collection of climate-related data from financial institutions; ii) system-wide supervisory and regulatory approaches to assessing climate-related risks; and iii) early consideration of other potential macroprudential policies and tools to address systemic risks. The public consultation period ends on Thursday 30 June 2022.

### Supervision on investment funds

(31/05/2022) ESMA - ESMA provides supervisors with guidance on the integration of sustainability risks and disclosures in the area of asset management

The European Securities and Markets Authority (ESMA) has published a supervisory report to ensure convergence across the European Union (EU) in the supervision of investment funds with sustainability features, and in combating greenwashing of investment funds by establishing common supervisory criteria for national competent authorities (NCAs) to effectively supervise funds with sustainability features. This document sets out some guidance for the supervision of fund documentation and marketing material, as well as guiding principles on the use of sustainability-related terms in fund names and convergent supervision of the integration of sustainability risks by Alternative Investment Fund Managers (AIFMs) and Undertakings for Collective Investment in Transferable Securities (UCITS) managers.

# Other publications of interest

## Recovery and resolution

### Resolution

(20/04/2022) SRB - 2022 Resolution Planning Cycle Booklet

The Single Resolution Board (SRB) has published the Resolution Planning Booklet, which informs stakeholders about the SRB's resolution planning activities and describes the main processes and phases of the current Resolution Planning Cycle. The milestones in 2022 are, among others: i) to update the SRB policies and operational guidance documents; ii) conducting close monitoring of resolvability and preparation of the substantive impediments procedure for those banks which show insufficient progress towards achieving resolvability; iii) to further develop deep-dive assessments, paving the way for conducting future on-site inspections.

### CCPs

(16/05/2022) ESMA - ESMA publishes final reports on CCP resolution regime

The European Securities and Markets Authority (ESMA) has published six Final Reports on the central counterparties (CCPs) resolution regime under the CCP Recovery and Resolution Regulation. The Final Reports set out proposals for Regulatory Technical Standards (RTSs) and cover guidelines on the circumstances under which a CCP is deemed to be failing or likely to fail as well as on the methodology to value each contract prior to termination. The overarching goal of ESMA's reports is to contribute to market preparedness generally and in the unlikely event of a CCP entering into resolution.

### Bail-in tool

(07/06/2022) EBA - EBA consults on Guidelines to resolution authorities on the publication of their approach to implementing the bail-in tool

The European Banking Authority (EBA) launched today a public consultation on its draft Guidelines addressed to resolution authorities for the publication of their approach to implementing the bail-in tool. The Guidelines aim to ensure that a minimum level of harmonised information is made public with regard to the mechanics underpinning the execution of the bail-in tool. The consultation runs until 7 September 2022.

### Resolvability assessment

(10/06/2022) BoE - Resolvability assessment of major UK banks: 2022

The Bank of England (BoE) has published the findings from its first assessment of the resolvability of the eight major UK firms as part of the Resolvability Assessment Framework. These firms are Barclays, HSBC, Lloyds Banking Group, Nationwide, NatWest, Santander UK, Standard Chartered and Virgin Money UK. The findings show that a major bank could enter resolution safely, remaining open and continuing to provide banking services to the economy.

# Other publications of interest

## Government

### INTERNAL CONTROL

(30/03/2022) BdE - Circular 3/2022, de 30 de marzo, del Banco de España, por la que se modifican la Circular 2/2016, la Circular 2/2014 y la Circular 5/2012

The Bank of Spain (BdE), following the publication of the Consultation Draft in November 2021, has approved Circular 3/2022, of 30 March, amending Circulars 2/2016 and 2/2014, on supervision and solvency and the exercise of regulatory options, and Circular 5/2012, on transparency and accountability in lending. Minor changes have been added with respect to the draft, which relate to Circular 2/2016. Specifically, the chapter on internal organisation has been modified. On the one hand, those responsible for internal control functions have been expressly included as a category of employees to which the fit and proper requirements apply, even though they are already considered as core staff. In addition, the standard on the assessment of the suitability of members of the board of directors, general managers and equivalent positions by the competent authority includes further clarifications necessary as a result of supervisory experience.

### DIVERSITY AND INCLUSION

(25/04/2022) FCA - DP2/22 – Policy Statement (PS) 22/3 on Diversity and inclusion on company boards and executive management

The Financial Conduct Authority (FCA) has published the Policy Statement (PS) 22/3 on Diversity and inclusion on company boards and executive management, which sets out the final policy decision for proposals set out in the Consultation Paper (CP) published in July. In-scope companies are required to make these disclosures in their annual reports for financial years starting on or after 1 April 2022.

### BALANCED GENDER REPRESENTATION

(07/06/2022) Council - Council and European Parliament agree to improve gender balance on company boards

The Council and the European Parliament (EP) has reached a provisional political deal on a new EU law promoting a more balanced gender representation on the boards of listed companies. The Council and EP therefore agreed that listed companies should aim to have at least 40% of their non-executive director positions held by members of the under-represented sex by 2026. If member states choose to apply the new rules to both executive and non-executive directors, the target would be 33% of all director positions by 2026.

### HIGH EARNERS

(30/06/2022) EBA - EBA publishes its final Guidelines on data collection exercises regarding high earners

The European Banking Authority (EBA) has published its final updated Guidelines on the data collection exercise on high earners. The update of the data collection exercises reflects the amended remuneration framework laid down in the Capital Requirements Directive (CRD), as well as the specific remuneration regime that has been introduced for investment firms and is laid down in the Investment Firms Directive (IFD) and Investment Firms Regulation (IFR). The annual collection of data regarding high earners under the updated Guidelines should start in 2023 for the financial year that ends in 2022.

**Data quality EMIR y SFTR**

(01/04/2022) ESMA - ESMA sees EMIR and SFTR data quality improve following coordinated actions

The European Securities and Markets Authority (ESMA) has published its second edition of its Data Quality Report based on data gathered under the European Markets Infrastructure Regulation (EMIR) and the Securitised Financing Transactions Regulation (SFTR) reporting regimes. The Report finds that the coordinated supervisory actions by ESMA and the National Competent Authorities (NCAs) have significantly enhanced data quality in 2021. Despite these very positive results, certain aspects related to data reconciliation will require more efforts by reporting entities. In particular, data quality could be enhanced if counterparties also used the same data set and the same identifiers for the reported data in their internal risk management processes.

**EBA risk dashboard**

(01/04/2022) EBA - EBA Risk Dashboard indicates limited direct impact on EU banks from the Russian invasion of Ukraine but also points to clear medium-term risks

The European Bank Authority (EBA) has published its Risk Dashboard for the fourth quarter of 2021 in which it is highlighted the potential impact of the Russian invasion of Ukraine on the European banking sector. The EBA's initial assessment is that the first-round risks to the European Union (EU) banking system are not a fundamental threat to financial stability, but the second-round effects are more worrying due to the current high level of uncertainty about the outcome of the war.

**Occupational pensions**

(25/04/2022) EIOPA - EIOPA consults on IORPs reporting rules

The European Insurance and Occupational Pensions Authority (EIOPA) has launched a public consultation regarding EIOPA's regular information requests to national competent authorities (NCAs) for occupational pension information. The aim of the public consultation is to improve institutions for occupational retirement provision (IORPs) reporting, focusing on emerging risks and new challenges and issues observed by NCAs and pensions industry since 2018.

**MREL**

(22/04/2022) EBA - EBA sees progress in MREL shortfall reduction by largest institutions while smaller institutions are lagging behind

The European Banking Authority (EBA) published its annual Report on minimum requirements for own funds and eligible liabilities (MREL) showing progress in this area as of December 2020. The Report highlights that 110 resolution groups presented a shortfall of EUR 67.6bn against their end-state MREL targets, set for January 2024 for most of them. The shortfall for other banks and other systemically important institutions (OSIIs) below EUR50bn is, however, largely stable at EUR30bn.

(28/04/2022) SRB - Single Resolution Board publishes MREL dashboard Q4.2021

The Single Resolution Board (SRB) has published its minimum requirement for own funds and eligible liabilities (MREL) dashboard covering the fourth quarter of 2021. The key findings show that the average MREL shortfall to the final 2024 targets including the combined buffer requirement reached 0.45% total risk exposure amount. Furthermore, Banks' issuance increased by 42.1% over the quarter and amounted to EUR 60.9 bn.

(08/06/2022) SRB - SRB publishes updated 2022 MREL policy

The Single Resolution Board (SRB) has published its updated approach to setting a Minimum Requirement for Own Funds and Eligible Liabilities (MREL). The policy has been revised based on experience gained and stakeholder feedback and applies to the 2022 resolution planning cycle. The policy takes into account new regulatory developments, such as the end of the supervisory leverage relief measures of the European Central Bank, as well as changes to the Capital Requirement Regulation (CRR) and the MREL calibration for banks with a multiple point-of-entry resolution strategy.

# Other publications of interest

## Reporting and disclosure

### Cross-border marketing and management

(17/05/2022) ESMA - ESMA consults on notifications for cross-border marketing and management of funds

The European Securities and Markets Authority (ESMA) is consulting stakeholders on the information and templates to be provided, and used by firms, when they inform regulators of their cross-border marketing and management activities under the undertakings for collective investment in transferable securities (UCITS) Directive and the Alternative Investment Fund Managers (AIFMD). The purpose is to facilitate this process and it will be achieved by defining harmonised information to be notified to competent authorities, and developing common templates to be used by management companies, UCITS and AIFMs.

### Reporting supervisor

(18/05/2022) EBA - EBA adopts decision on supervisory reporting for intermediate EU parent undertaking threshold monitoring

The European Banking Authority (EBA) has adopted a decision on supervisory reporting for EU parent undertaking (IPU) threshold monitoring for those entities belonging to third country groups, including third-country branches. Competent authorities shall report to the EBA information on the total value assets held by these entities within the scope of their jurisdiction in the format specified in the Annexes to the Decision. The EBA will provide feedback to the relevant competent authorities for each third country group in order to facilitate cooperation between them and support their IPU decision process.

### Reporting and disclosure

(24/05/2022) EBA - EBA updates mapping between technical standards on Pillar 3 disclosures and technical standards on supervisory reporting (v3.0)

The European Banking Authority (EBA) has published an updated mapping tool between quantitative disclosure data points and relevant supervisory reporting data points. The tool is part of the EBA's overall objective to make the reporting and disclosure process more efficient and less costly for banks. It aims at facilitating institutions' compliance with disclosure requirements and improving the consistency and quality of the information disclosed.

### EBA's reporting framework

(03/06/2022) EBA - EBA releases phase 2 of its 3.2 reporting framework

The European Banking Authority (EBA) has published phase 2 of version 3.2 of its reporting framework. The technical package supports the implementation of the updated reporting framework by providing standard specifications and includes the validation rules, the Data Point Model (DPM) and the XBRL taxonomies for version 3.2. The updated package supports the amendments to supervisory benchmarking and resolution reporting. It also includes some technical amendments on minimum requirement for own funds and eligible liabilities (MREL) and funding plans reporting.

### Validation rules

(13/06/2022) EBA - EBA issues revised list of ITS validation rules

The European Banking Authority (EBA) has issued a revised list of validation rules for its reporting standards (ITS, RTS, Guidelines), highlighting those which have been deactivated either for incorrectness or for triggering IT problems. Competent Authorities throughout the EU are informed that data submitted in accordance with these reporting standards should not be formally validated against the set of deactivated rules.

# Other publications of interest

## Reporting and disclosure

- **SUSTAINABILITY**

**DISCLOSURE REQUIREMENTS ACCORDING THE ISSB**

(01/04/2022) ISSB - Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information / Exposure Draft IFRS S2 Climate-related Disclosures

The International Sustainability Standards Board (ISSB) has published a draft on the general requirements for disclosure of sustainability-related financial information, about all its significant sustainability-related risks and opportunities, to provide the market with a complete set of sustainability-related financial disclosures. It has also published a draft on climate-related disclosures, which sets out the requirements for identifying, measuring and disclosing climate-related risks and opportunities. Both Drafts are based on the prototypes published on the IFRS Foundation website in November 2021 and only introduce minor amendments. Comments to these projects can be sent before 29 July 2022.

**ESG DISCLOSURE**

(06/04/2022) EC - Regulation on sustainability-related disclosure in the financial services sector

The European Commission (EC) has published the Delegating Regulation supplementing Sustainable Finance Disclosure Regulation (SFDR). In this Delegated Act, the EC bundled the European Supervisory Authorities (ESAs) Draft Regulatory Technical Standards (RTS) in a single legal act that makes it easier to locate provisions on sustainability-related disclosures in the financial services sector. The EC has not change any substantive requirements.

**DISCLOSURE AND TAXONOMY REGULATION**

(25/05/2022) IFRS - Request for Feedback and comment letters: Staff Request for Feedback on the staff draft of the IFRS Sustainability Disclosure Taxonomy

The IFRS foundation, has prepared the staff request for feedback on the IFRS Sustainability Disclosure Taxonomy. The purpose of this request is to support initial research by the IFRS Foundation staff to inform to the International Sustainability Standards Board (ISSB) on the development of proposals for the IFRS Sustainability Disclosure Taxonomy. This request is not an exposure draft or proposed taxonomy.

**SFDR**

(06/05/2022) EC - Mandate to the ESAs to develop SFDR regulatory technical standards on product exposures to gas and nuclear activities

The European Commission (EC) has invited the European Supervisory Authorities (ESAs) to propose amendments to regulatory technical standards in relation to the information that should be provided in pre-contractual documents, on websites, and in periodic reports about the exposure of financial products to investments in fossil gas and nuclear energy activities. The reason for this appeal is the need to modify the Delegated Regulation to ensure that investors receive information reflecting the provisions set out in the Complementary Climate Delegated Regulation. If such amendments are not adopted, several areas in the SFDR Regulation might not appropriately reflect the new factual and regulatory situation.

(02/06/2022) ESAs - ESAs provide clarifications on key areas of the RTS under SFDR

The European Supervisory Authorities (EBA, EIOPA and ESMA, ESAs) have published a statement providing clarifications on the draft regulatory technical standards (RTS) issued under the Sustainable Finance Disclosure Regulation (SFDR), which include the financial product disclosures under the Taxonomy Regulation. The statement is part of the ESAs' on-going efforts to promote a better understanding of the disclosures required under the technical standards of the SFDR.

# Other publications of interest

## Compliance

**PRIIPs**

(24/06/2022) ESAs - ESAs refer stakeholders to Commission statement on the application date of new PRIIPs rules / The Commission publishes a delegated regulation that postpones the application date of certain PRIIPs-related disclosures

The European Supervisory Authorities (ESAs) has drawn the attention of National Competent Authorities to a Delegated Regulation published by the European Commission concerning the application date of new rules for the Key Information Document (KID) for packaged retail and insurance-based investment products (PRIIPs). In particular, this Regulation postpones the application date to 1 January 2023, instead of 1 July 2022 as initially foreseen in the amending act adopted on 6 September.

**Best investment practices**

(24/06/2022) CNMV - La CNMV somete a consulta el código de buenas prácticas para inversores institucionales, gestores de activos y asesores de voto

The Comisión Nacional del Mercado de Valores (CNMV) has submitted the Code of Best Practices for Institutional Investors, Asset Managers and Proxy Advisors for public consultation. The Code is aimed at institutional investors and asset managers based in Spain, although it may also be applied by investors or managers from other jurisdictions. It is voluntary and there will be a three-year adaptation period for entities that decide to adhere to it. Furthermore, its application will follow the criterion of proportionality according to the size, scale or complexity of the entity, as well as the nature of the investors and resources of the companies invested in.

# Other publications of interest

## Technology

**Payment services**

(05/04/2022) EBA - EBA publishes final Report on the amendment of its tecnical standards on the exemption to strong customer authentication for account access

The European Banking Authority (EBA) published its final Report on the amendment of its Regulatory technical standards on strong customer authentication and secure communication (SCA&CSC) under the Payment Services Directive. The changes introduce a new mandatory exemption to SCA that will require account providers not to apply SCA when customers use an account information service provider (AISP) to access their account information, provided certain conditions are met. The amendment aims to reduce frictions for customers using such services and to mitigate the negative impacts that SCA and the current exemption have on AISPs' services.

**Digital euro**

(05/04/2022) EC - Targeted consultation on a digital euro

The European Commission (EC) has published a targeted consultation for a digital euro to be used as the single currency, concurrently with euro banknotes and coins. An impact assessment will be prepared for the drafting of the Regulation governing the digital euro, building on this EC consultation and the one launched in October 2020 by the ECB. The consultation aims to collect further information on expected impacts on key industries, users, chambers of commerce and other stakeholders in international trade. Furthermore, it will gather further evidence on issues such as the impact on the financial sector and its stability or the privacy and data protection aspects. Comments can be sent before 14 June 2022.

**Data governance act**

(06/04/2022) EC - Data governance: Parliament approves new rules boosting intra-EU data sharing

The European Parliament (EP) backed new legislation that aims to complement The Data Governance Act (DGA), agreed with Council in November 2021. This was an informal agreement and it was required to be formally endorsed by Parliament and Council to come into force. Now the EP has formally adopted the Data Act and it will It will have to be formally adopted by Council. The text approved ensured there were no loopholes that would allow operators from non-EU countries to abuse the scheme, strengthening provisions on trust and fair access. Parliament also secured precise requirements on which services will fall under the new DGA and pushed to make the most of data made available voluntarily for objectives of general interest. Trusted data-sharing services will be more visible and use a common European logo certifying their compliance with the DGA.

**Environmental and cyber risks**

(13/04/2022) ESAs - ESAs see recovery stalling amid existing and new risks

The three European Supervisory Authorities (EBA, EIOPA and ESMA - ESAs) issued their first joint risk assessment report for 2022. The report highlights the increasing vulnerabilities across the financial sector as well as the rise of environmental and cyber risks. Some of the risks emerging during 2021 and highlighted in the report were amplified by Russia's invasion of Ukraine. In light of the risks and uncertainties, the ESAs advise national competent authorities, financial institutions and market participants to take certain actions to prevent impacts and threats.

**Risk management**

(14/04/2022) BoE - Bank of England Consultation Papers: FMI outsourcing and third party risk management

The Bank of England (BoE) has published Consultation Papers (CPs) where its sets out and invites comments on its proposals around outsourcing and third party risk management in Financial Market Infrastructures (FMIs). The aim of these CPs is to facilitate greater resilience and adoption of the cloud and other new technologies as set out in the Bank of England's response to the Future of Finance report, set out the Bank's requirements and expectations in relation to outsourcing and third party risk management in FMIs and complement the Bank's Supervisory Statements on FMI operational resilience.

# Other publications of interest

## Technology

### Blockchain

(06/05/2022) EIOPA - EIOPA reacts to stakeholders' views on blockchain in insurance

The European Insurance and Occupation Pensions Authority (EIOPA) has published a Feedback Statement on blockchain and smart contracts in insurance. The document provides a summary of the responses received from stakeholders during a public consultation on the topic as well as EIOPA's reactions to them. Insurers see potential in blockchain and are exploring possible use cases across the insurance value chain to streamline business and better serve customers. Stakeholders also agreed that there is potential for blockchain to be used in supervisory and regulatory processes and highlighted that efforts should focus on lowering costs and reducing procedural burdens for both the industry and supervisors.

### Online financial services

(11/05/2022) EC - Consumer protection: Commission adopts stronger consumer rules for online financial services

The European Commission (EC) has adopted a reform of the current EU rules on Distance Marketing of Consumer Financial Services, which govern financial services sold at a distance. The Proposal will strengthen consumer rights and foster the cross-border provision of financial services in the single market. The proposal introduces actions across several areas, among others: i) easier access to 14-day withdrawal; ii) clear rules on what, how and when pre-contractual information is to be provided; and iii) special rules to protect consumers when concluding financial services contracts online. The Commission's Proposal will now be discussed by the Council and the European Parliament.

### Outsourcing

(13/05/2022) ESMA - ESMA working paper on Financial stability risks from cloud outsourcing

The European Securities and Markets Authority (ESMA) has released a working paper on Financial stability risks from cloud outsourcing. Given the high concentration of Cloud Service Providers (CSPs), a single CSP outage could generate simultaneous firm-level outages, posing systemic risk. The model presented in this paper examines this possibility. ESMA calibrates the model with operational risk data to simulate outages among central counterparties (CCPs) clearing members and show that CSPs need to be significantly more resilient than firms to improve the safety of the financial system. Finally, ESMA shows that the use of an idealized back-up CSP successfully mitigates systemic risk from CSPs.

### Data protection

(23/06/2022) Gov.UK - Data: a new direction - government response to consultation

The UK Government has published its conclusions to the consultation launched in September 2021 on reforming the UK's personal data protection regime. These conclusions focus primarily on: i) reducing barriers to responsible innovation; ii) reducing burdens on business; iii) boosting trade and reducing barriers to data flows; iv) delivering better public services through improved use of and access to personal data. Following the publication of these conclusions, the Government will prepare a draft reform of the data protection regime for submission to Parliament for approval.

### Banking cryptoassets exposures

(30/06/2022) BCBS - Second consultation on the prudential treatment of cryptoasset exposures

The Basel Committee on Banking Supervision (BCBS) has published a second public consultation on the prudential treatment of banks' cryptoasset exposures. The consultation builds on the preliminary proposals set out in the Committee's June 2021 consultation and the responses received from stakeholders. The Committee invites submissions on the proposals by 30 September and aims to finalise the standard around the year-end.

# Other publications of interest

## Others

**Short selling**

(04/04/2022) ESMA - Final Report on the review of the Short Selling Regulation

The European Securities and Markets Authority (ESMA) has published its Final Report on the review of the short selling Regulation (SSR). The Final Report proposes targeted amendments to improve its operation, focused on clarifying the procedures for the issuance of short and long-term bans, ESMA's intervention powers, the prohibition of naked short selling and the calculation of net short positions (NSPs) and their publication.

**Corporate bond market**

(06/04/2022) IOSCO - IOSCO seeks feedback on market liquidity issues affecting corporate bond markets under stress and good practices concerning ETFs

The International Organization of Securities Commissions (IOSCO) has published its report on corporate bond markets: drivers of liquidity during COVID-19 induced market stresses, and invites stakeholder feedback on the analysis. Furthermore, IOSCO has opened a consultation on good practices for IOSCO members, asset managers, and trading venues to consider in the operation and trading of Exchange Traded Funds (ETFs) and to supplement IOSCO's 2013 Principles for the Regulation of Exchange Traded Funds.

**Work programme**

(07/04/2022) FCA - Business Plan 2022/2023

The Financial Conduct Authority (FCA) has published its Business Plan 2022/2023 which explains the key work that the FCA will do over the next 12 months. The focus is: i) on protecting consumers from the harm that firms can cause; ii) on the impact that firms' actions have on consumers and markets; and iii) preparing financial services for the future by promoting competition and positive change.

**Business plan**

(20/04/2022) PRA - Prudential Regulation Authority Business Plan 2022/23

The Prudential Regulation Authority (PRA) has published its Business Plan for the 2022/23 period. The main objectives of the Plan are, among others: i) retain and build on the strength of the banking and insurance sectors delivered by the financial crisis reforms; ii) be at the forefront of identifying new and emerging risks, and developing international policy; iii) support competitive and dynamic markets in the sectors that it regulates; and iv) run an inclusive, efficient and modern regulator within the central bank.

**Market data in secondary equity markets**

(28/04/2022) IOSCO - IOSCO releases report on issues and considerations of market data in secondary equity markets

The Board of the International Organization of Securities Commissions (IOSCO) published a report that sets out some issues and considerations for regulators when reviewing the regulation of market data provided by trading venues or OTC markets. The Report highlights that market data is an essential element of efficient price discovery and for maintaining fair and efficient markets.

# Other publications of interest

## Others

### Retail investment strategy

(02/05/2022) ESAs - ESAs recommend changes to make the PRIIPs key information document more consumer-friendly

The European Supervisory Authorities (EBA, EIOPA and ESMA - ESAs) have published a document which sets their technical advice to the European Commission (EC) on the review of the PRIIPs Regulation. The advice will serve as input for developing the Commission's Retail Investment Strategy. The document addresses all the issues requested by the Commission, including how to better adapt the key information document (KID) to the digital age and whether to extend the scope of the Regulation to other financial products. Additionally, it presents recommendations on a range of other issues where analysis has shown that changes are needed to achieve optimal outcomes for retail investors.

(02/05/2022) EIOPA - EIOPA publishes advice on Retail Investor Protection

The European Insurance and Occupational Pensions Authority (EIOPA) has published its Final Report with its advice to the European Commission (EC) on retail investor protection in relation to the sale of Insurance-Based Investment Products (IBIPs). EIOPA's main findings in the areas which the Commission asked EIOPA to address in its Call for Advice, are as follows: i) enhancing consumer engagement with disclosures, including digital disclosures; ii) assessing the risks and opportunities presented by new digital tools and channels; iii) tackling damaging conflicts of interest in the sales process; iv) promotion of an affordable and efficient sales process and v) assessing the impact of complexity in the retail investment product market.

### Non-bank lending

(04/05/2022) EBA - EBA provides its advice to the EU Commission on non-bank lending

The European Banking Authority (EBA) has published a Report on non-bank lending in response to the European Commission's February 2021 Call for Advice on this topic. The EBA's proposals aim at addressing risks arising from the provision of lending by non-bank entities in the areas of supervision, consumer protection, anti-money laundering and countering the financing of terrorism (AML/CFT), macro and micro prudential risks. In this Report, the EBA has identified the risks related to provisions of credit by non-bank lenders and put forward some proposals to address them.

### Monetary policy

(05/05/2022) ECB - ECB amends monetary policy implementation guidelines

The European Central Bank (ECB) has published amendments to its guidelines on the implementation of monetary policy in the Eurosystem. The amended guidelines make the following changes: i) the first step in gradually phasing out the pandemic collateral easing measures; ii) clarification of the eligibility criteria for sustainability-linked bonds and asset-backed securities (ABSs); iii) provisions that apply in the event of the activation of the Enhanced Contingency Solution (ECONS) under the TARGET2 system; iv) alignment of the Eurosystem's collateral framework with the requirements set out in the Covered Bond Directive and v) phasing out the option to accept certain marketable assets issued by non-euro area G10 central governments in their national currency as collateral, as this option was never used.

### War in Ukraine

(13/05/2022) ESMA - ESMA reminds fund managers of their obligations to investors amid the war in Ukraine

The European Securities and Markets Authority (ESMA) has released a Public Statement on the implications of Russia's invasion of Ukraine on investment fund portfolios. The statement, with the aim of promoting investor protection and convergence, provides overarching messages to fund managers including high level guidance: i) on the appropriate action in case of exposures to Russian, Belarusian and Ukrainian assets, given valuation and liquidity uncertainties; ii) the process fund managers should follow when evaluating these assets; and iii) whether it may be considered to use side pockets or similar arrangements to segregate these assets.

(13/05/2022) ESMA - ESMA reminds issuers of the main IFRS requirements amid the war in Ukraine

The European Securities and Markets Authority (ESMA), has released a Public Statement on the implications of Russia's invasion of Ukraine on half-yearly financial reports. ESMA recognises the human cost of Russia's military aggression against Ukraine, and the significant challenges to business activities and effects on the global economic and financial system posed by the invasion. The statement, with the aim of promoting investor protection, provides overarching messages to issuers and auditors including: i) a reminder of the main IFRS requirements and obligations related to the Market Abuse Regulation and ii) the ESMA expectations regarding disclosures in financial statements and interim management reports.

# Other publications of interest

## Others

**Non-performing Loans**

(16/05/2022) EBA - EBA consults on standardised information requirements to support sales of non-performing loans

The European Banking Authority (EBA) today launched a public consultation on the draft Implementing Technical Standards (ITS) specifying the requirements for the information that sellers of non-performing loans (NPL) shall provide to prospective buyers, seeking to improve the functioning of NPL secondary markets. The objective of the draft ITS is to provide a common standard for the NPL transactions across the EU enabling cross-country comparison and thus reducing information asymmetries between the sellers and buyers.

**Crowdfunding**

(19/05/2022) ESMA - ESMA encourages crowdfunding service providers to accelerate their transition to the new regime

The European Securities and Markets Authority (ESMA) has published its final report on the relevance of extending the transitional period set out in the Crowdfunding Regulation (CR), which applies to Crowdfunding service providers (CSPs) that provide their services only on a national basis. This transitional period is set to expire on 10 November 2022. In the report, ESMA discusses the application of the CR to these CSPs as well as the relevance of extending the transitional period.

**Money market funds**

(23/05/2022) FCA - DP22/1: Resilience of Money Market Funds

The Financial Conduct Authority (FCA) has launched a joint Discussion Paper (DP) with the Bank of England, and with the endorsement of the Treasury, on reforming Money Market Funds (MMFs). The main aim of the DP is to contribute to the debate about how to reduce UK financial stability risks while also ensuring that the structure of the financial system and UK market support the needs of the real economy in a sustainable and robust way.

**Shadow banking**

(23/05/2022) EBA - EBA publishes final technical standards to identify shadow banking entities

The European Banking Authority (EBA) has published its final draft Regulatory Technical Standards (RTS) specifying the criteria to identify shadow banking entities for the purposes of reporting large exposures. The final draft RTS clarify that entities carrying out banking activities or services and which have been authorised and supervised in accordance with the EU prudential framework, shall not be considered as shadow banking entities.

**Pensions**

(24/05/2022) FCA - FS22/2: Driving Value for Money in Defined Contribution Pensions

The Financial Condict Authority (FCA) has set out the feedback received on the proposed framework to assess and promote Value for Money (VFM) in all FCA and TPR-regulated Defined Contribution pension schemes (workplace and non-workplace). The FCA states that it is necessary to have a consistent framework for assessing VFM across Defined Contribution pension schemes to help deliver good outcomes for savers.

**Financial stability**

(25/05/2022) ECB - Russia-Ukraine war increases financial stability risks, ECB Financial Stability Review finds

The European Central Bank (ECB) has released Its May 2022 Financial Stability Review which argues about the worsening of the financial stability conditions in the euro area as the Russian invasion of Ukraine leads to higher energy and commodity prices and increases risks to euro area inflation and growth. The market reaction to invasion has been largely orderly. Furthermore, profitability prospects for European banks have weakened again, following a strong recovery in 2021

**Investment companies**

(30/05/2022) SEC - Proposed rules on investment company name

The Securities and Exchange Commission (SEC) has proposed to amend the rule under the Investment Company Act of 1940 hat addresses certain broad categories of investment company names that are likely to mislead investors about an investment company's investments and risks. The proposed amendments to this rule are designed to increase investor protection by clarifying the requirement for certain funds to adopt a policy to invest at least 80% of their assets in accordance with the investment focus that the fund's name suggests. The SEC also is proposing enhanced prospectus disclosure requirements for terminology used in fund names.

# Other publications of interest

## Others

### Climate-related financial risks/cryptoassets/G-SIBs

(31/05/2022) BIS - Basel Committee finalises principles on climate-related financial risks, progresses work on specifying cryptoassets' prudential treatment and agrees on way forward for the G-SIB assessment methodology review

The Basel Committee (BIS) met on 27 May and approved a finalised set of principles for the effective management and supervision of climate-related financial risks. It also progressed its work on specifying a prudential treatment of cryptoassets and issuing a second consultation paper, and agreed on a way forward to reflect developments in the European banking union (EBU) on the assessment methodology for global systemically important banks (G-SIBs). In addition, the Committee is continuing to assess risks to and vulnerabilities of the global banking system, including those ensuing from the conflict in Ukraine. The Committee has not yet published revised versions of these documents, but we will send a notification when they are available.

### IAIS 2021 report

(31/05/2022) IAIS - IAIS Year in Review 2021 highlights progress and key achievements of the past year

The International Association of Insurance Supervisors (IAIS) has published its Year in Review 2021. The report provides an overview of the IAIS role, mission and strategy, then delves into the progress and key achievements of the IAIS in 2021. This year's edition has a special focus on IAIS work on climate with an overview of the IAIS' pioneering work and reporting on achievements against the IAIS' own Environmental Policy. Also included is the new graphical representation of the 2022-2023 Roadmap, to see what is coming up next for the IAIS.

### AML/CFT

(01/06/2022) ESAs - ESAs publish the joint Report on the withdrawal of authorisation for serious breaches of AML/CFT rules

The European Supervisory Authorities (EBA, EIOPA and ESMA – ESAs) published a joint Report, which provides a comprehensive analysis on the completeness, adequacy and uniformity of the applicable laws and practices on the withdrawal of license for serious breaches of the rules on anti-money laundering and countering the financing of terrorism (AML/CFT). The joint Report highlights the importance of the appropriate integration of AML/CFT issues into prudential regulation and supervision, including in the proposal for the Markets in Crypto-Assets Regulation (MiCA), currently under negotiation.

### CSDR

(02/06/2022) ESMA - ESMA publishes technical standards to suspend the CSDR buy-in regime

The European Securities and Markets Authority (ESMA), has published a Final Report on amending the regulatory technical standards (RTS) on settlement discipline to postpone the application of the Central Securities Depositories Regulation (CSDR) mandatory buy-in regime for three years. The proposed amendment is based on the expected changes to the mentioned regime presented in the Commission's legislative proposal for the CSDR Review and on the amendment made to CSDR through the Regulation on a pilot regime for market infrastructures based on distributed ledger technology (DLT Pilot Regulation), which allows ESMA to propose a later start date for the CSDR buy-in regime.

### Significant holdings

(08/06/2022) CNMV - Circular 2/2022, de 26 de mayo, de la Comisión Nacional del Mercado de Valores, por la que se aprueban los modelos de notificación de participaciones significativas, de operaciones del emisor sobre acciones propias, y creadores de mercado

The Comisión Nacional del Mercado de Valores (CNMV) has published a circular approving the notification forms for significant shareholdings, issuer transactions in own shares, and market makers. It modifies the following features of the notification models: i) models II, III, and VI, which refer, respectively, to the notification of directors; to the notification of managers and their close links and other links to directors; and to the notification of remuneration systems granted by an issuer, are eliminated; and ii) model I on notification of significant shareholders is modified to inform, where applicable, of double votes for loyalty.

# Other publications of interest

## Others

### Fallback rate

(13/06/2022) EMMI - Publication of Beta Efterm® Rates and consultation on fallback rates methodology

The European Money Markets Institute (EMMI) has started to publish a beta version of its first EURIBOR fallback rate. This rate, EFTERM® (Euro Forward Looking Term Rate), is a forward-looking term rate, based on available market data on Overnight Indexed Swaps that reference the European Central Bank's Euro Short Term Rate. The beta rates are for information and illustration purposes only and under no circumstances should be used as a reference in a financial instrument or financial contract.

### EMIR

(13/06/2022) ESAs - ESAs propose extending temporary exemptions regime for intragroup contracts during EMIR review

The European Supervisory Authorities (EBA, EIOPA and ESMA - ESAs) have published a final report with draft regulatory technical standards (RTS) proposing to amend the Commission Delegated Regulation on the risk mitigation techniques for over-the-counter (OTC) derivatives not cleared by a Central Clearing Counterparty (CCP) under the European Market Infrastructure Regulation (EMIR). The draft RTS propose extending the current temporary exemptions regime for intragroup contracts by three years.

### Customer service

(14/06/2022) FCA - Guidance consultation: Branch and ATM closures or conversions

The Financial Conduct Authority (FCA) has published a Consultation Guidance on branch and ATM closures or conversions in order to update the original guidance from 2020 on this topic. The aim of this consultation is to address changes to the provision of in-person services as that is where the greatest change and risk of harm is focused. Firms are making decisions that might affect consumers and, in this context, the FCA considers that some have fallen short of the expectations outlined in its guidance so they aim to make sure that these guidelines are clear and that firms support customers through any transitions.

### Financial stability

(22/06/2022) EIOPA - EIOPA sees the European economy entering a phase of heightened uncertainty

The European Insurance and Occupational Pensions Authority (EIOPA) has published its June 2022 Financial Stability Report, in which it examines the main trends for the European (re)insurance and pensions sectors as well as the macroeconomic landscape with its implications. EIOPA notes that the European economy is in a phase of heightened uncertainty and Macroeconomic conditions have deteriorated as a result of Russia's invasion of Ukraine. Additionally, the Financial Stability Report analyses the risks related to climate change and cyber security.

# Other publications of interest

## Others

### GLOBAL SISTEMICALLY IMPORTANT BANKS

(27/06/2022) ECB - Governing Council statement on the treatment of the European banking union in the assessment methodology for global systemically important banks

The Governing Council of the European Central Bank (ECB) has released a compilation of statements after the meeting of its Macroprudential Forum, which highlights the results of the BCBS targeted review of the implications of developments relating to the European Banking Union (EBU) in terms of the assessment methodology for global systemically important banks (G-SIBs) carried by the Basel Committee. Particularly, it has been recognized the progress that had been made in the development of the EBU and it has been agreed to give recognition in the G-SIB assessment framework to this progress through the existing methodology. Under this agreement, a parallel set of G-SIB scores will be calculated for EBU-headquartered G-SIBs and used to adjust their bucket allocations.

- **SUSTAINABILITY**

### ESG CREDIT RATINGS

(04/04/2022) EC - Targeted consultation on the functioning of the ESG ratings market in the European Union and on the consideration of ESG factors in credit ratings

The European Commission (EC) has launched its targeted consultation on the functioning of the ESG ratings market in the European Union and on the consideration of ESG factors in credit ratings. This consultation will help the Commission gain a better insight on the functioning of the market for ESG ratings, as well as better understand how credit rating agencies (CRAs) incorporate ESG risks in their creditworthiness assessment. Comments can be sent before 6 June 2022.

(27/06/2022) ESMA - ESMA publishes results of its call for evidence on ESG ratings

The European Securities and Markets Authority (ESMA), the EU's securities markets regulator, has published a letter to the European Commission (EC) providing its findings from the Call for Evidence to gather information on the market structure for ESG rating providers in the European Union (EU). Among the main findings it highlights that: i) the structure of the market among providers is split between a small number of very large non-EU entities on one hand, and a large number of significantly smaller EU entities on the other; ii) the majority of users of ESG ratings are typically contracting for these products from several providers simultaneously; and iii) entities covered by these products are required to dedicate at least some level of resourcing to their interactions with ESG rating providers, although the amount largely depends on the size of the rated entity itself.

### CUSTOMER'S SUSTAINABILITY PREFERENCES

(13/04/2022) EIOPA - EIOPA consults on draft Guidelines on integrating the customer's sustainability preferences in the suitability assessment under the IDD

The European Insurance and Occupational Pensions Authority (EIOPA) has launched a public consultation on draft Guidelines on integrating the customer's sustainability preferences in the suitability assessment under the Insurance Distribution Directive (IDD). The aims of this consultation are: i) the promotion of a coherent application of the Delegated Regulation (EU) 2021/1257 on integration of sustainability factors, risks and preferences into the product oversight and governance, by insurance undertakings and intermediaries across Member States and National Competent Authorities (NCAs); ii) the restriction in the potential for the mis-selling of insurance products and iii) the promotion of a more convergent approach by NCAs in the supervision of insurance undertakings and insurance intermediaries.



### NON-PERFORMING LOANS

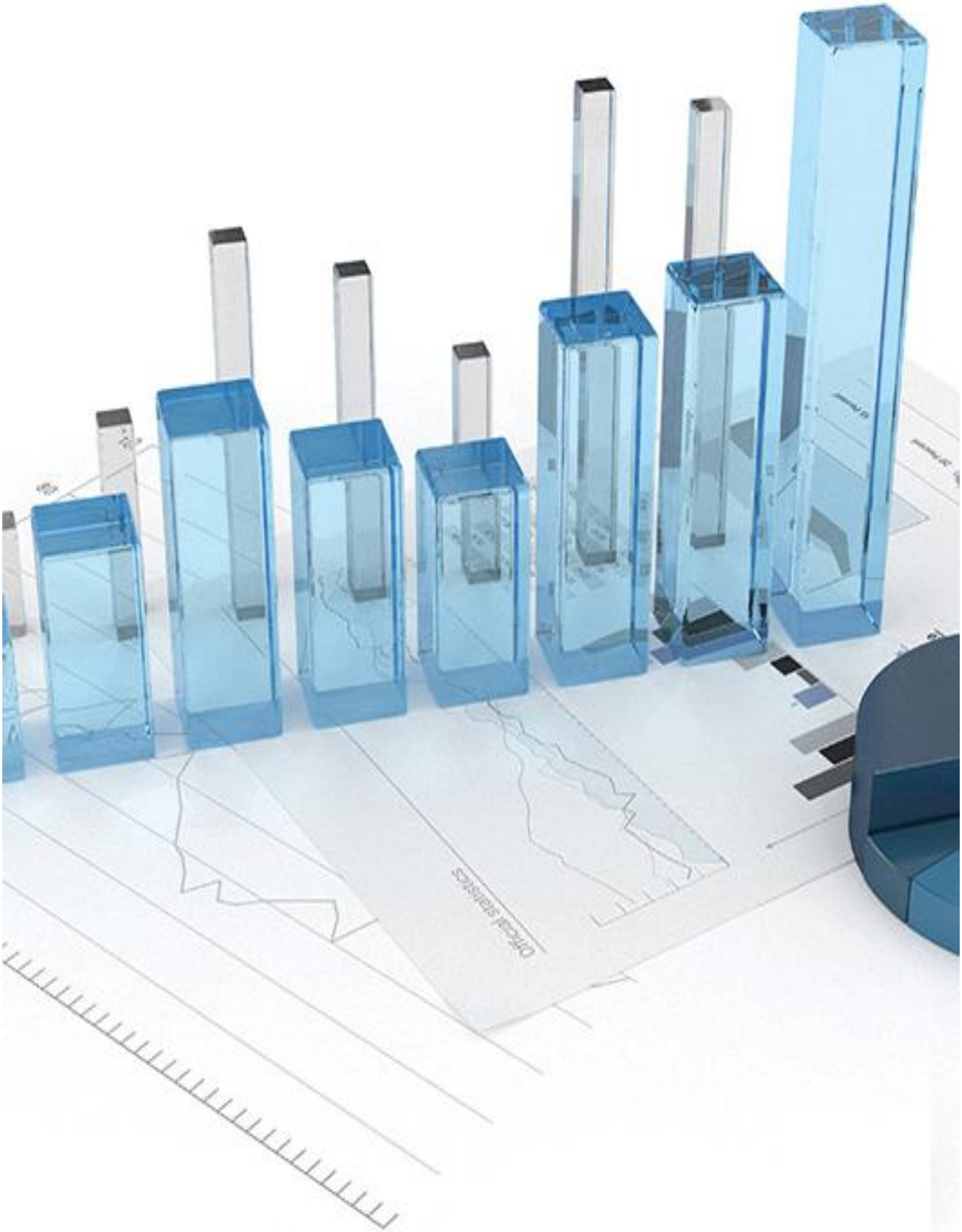
(16/05/2022) EBA - EBA consults on standardised information requirements to support sales of non-performing loans

The European Banking Authority (EBA) today launched a public consultation on the draft Implementing Technical Standards (ITS) specifying the requirements for the information that sellers of non-performing loans (NPL) shall provide to prospective buyers, seeking to improve the functioning of NPL secondary markets. The objective of the draft ITS is to provide a common standard for the NPL transactions across the EU enabling cross-country comparison and thus reducing information asymmetries between the sellers and buyers.

### ESG FUNDS

(23/05/2022) ESMA - ESMA study looks at funds for lower costs in ESG funds

The European Securities and Markets Authority (ESMA) has published a study looking at the potential reasons behind the relatively lower ongoing costs, and better performance, of environmental, social and governance (ESG) funds compared to other funds, between April 2019 and September 2021. Some of the potential drivers of this outperformance could be that  ESG funds are more oriented towards large cap stocks and towards developed economies.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