3Q22 Regulation Outlook

R&D

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Executive Summary

Of particular relevance in this period was the publication of the stress test methodologies for the 2023 financial year, both by the EBA and the BoE. In addition, the FCA's Consumer Duty and EIOPA's Guidance on assessing the materiality of climate change in ORSA are of particular relevance

European publications

- **Application guidance on running climate change materiality assessment and using climate change scenarios in the ORSA.** It is a guide for materiality assessment in the context of climate change scenario design and specifications using concrete case studies. (EIOPA, August 2022)
- **Consultation Paper on the supervisory handbook on the validation of IRB rating systems**, which complements the roadmap published in 2016 to repair internal models used to calculate own funds requirements for credit risk under the IRB approach and provides some general guidance on the expectations relative to the validation function. (EBA, August 2022)
- **2022 climate risk stress test results** which show that banks do not yet sufficiently incorporate climate risk into their stress-testing frameworks and internal models, despite some progress made since 2020. (ECB, July 2022)
- **2023 EU-wide stress test draft methodology, templates**. The methodology covers all risk areas and builds on the one prepared for the 2021 EU wide stress test. As a novelty to the previous stress test exercise, the projections on net fee and commission income (NFCI) will be based on a top-down model. This is a first step of revising the EU-wide stress test framework towards a hybrid (bottom-up and top-down) approach. (EBA, July 2022)

Local publications

- **Law 12/2022 on the regulation for the promotion of occupational pension plans,** which amends Royal Decree 1/2002, with the aim of encouraging the existence of publicly promoted occupational pension funds of an adequate size to guarantee the lowest management costs, allow a diversified distribution of investments and, therefore, improve profitability levels. (Spain, General Courts, July 2022)
- **Consumer Duty Instrument 2022**. The rules set higher and clearer standards of consumer protection across financial services and require firms to put their customers' needs first and to evidence whether this outcome is being met. (UK, FCA, July 2022)
- **Guidance on the 2022 annual cyclical scenario**, **the templates for data collection, and the Key elements of the scenario.** For the first time,, it will be assessed the ring-fenced subgroups of the existing participating banks on a standalone basis, where these differ materially from the group as a whole**.** The projections data requested should be submitted to the BoE by 11 January 2023. (UK, BoE, September 2022)
- **Proposed Policy Statement for prudent commercial real estate loan accommodations and workouts** in order to assist financial institutions, given these challenges and risks related to commercial real estate lending. (USA, OCC/FDIC/NCUA, August 2022)
- **2022 stress test results** which showed that banks continue to have strong capital levels, allowing them to continue lending to households and businesses during a severe recession. (USA, Fed, July 2022)

Regulatory projections

At the European level, several publications related to ESG risks are expected, such as the second EC Delegated Act on the remaining four objectives of the Taxonomy Regulation, the GL on ESG risk management or the ITS on EBA Pillar 3 reporting. In the technology area, the final document on the Artificial Intelligence Regulation is expected to be published

Featured regulatory projections

1. Next quarter

- **(Europe) Q4 2022:**
  - EBA : i) GL on benchmarking of internal models; ii) GL on ESG risk management; iii) ITS on IRRBB reporting; iv) ITS on Pillar 3 reporting of ESG risks (full scope of ESG risks); v) RTS on liquidity risk measurement of Investment firms; vi) Final Guidelines on digital identities and electronic onboarding; vii) ITS on benchmarking for market risk.
  - 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; iv) Guidelines on the application by companies of the requirement for long-term climate change scenario analysis.
  - EP and Council: i) Regulation laying down requirements for artificial intelligence (AI Law); ii) Directive on measures for a high common level of cybersecurity across the Union, repealing Directive (EU) 2016/1148 (NIS Directive); Digital Markets Act.
  - EC: i) Multi-annual work programme (2023-2025 horizon); ii) 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: i) Consultation Paper on prudential ESG disclosure; ii) Consultation Paper on disclosure rules and labelling to support Government ambition in green finance.
- **(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.
  - EBA: Final Methodology for 2023 Stress Test.

2. Next year

- **(Europe) Q1 2023**:
  - EBA: i) 2022 benchmarking report on IRB models; ii) 2022 benchmarking report on market risk models; iii) Multi-annual work programme (2024-2026 horizon).
- **(Europe) Q2 2023**:
  - EBA: i) GL on calculation of K IRB for dilution and credit risk (CP); vi) GL on diversity benchmarking under CRD and IFD; viii) GL on resolvability testing; ix) GL on Overall Recovery Capacity; xii) ITS on IRRBB reporting; xiii) ITS on supervisory disclosure.
- **Europe July 2023**:
  - EBA: Results of the 2023 Stress Test.
- **(Europe) Q3 2022:**
  - EBA: i) Report on the application of waivers for remuneration requirements (CRD) and Report on High earner (annual, CRD and IFD); ii) ITS on Resolution Reporting; vi) CRD V/CRR II Basel III monitoring report; vii) 2024 Annual work programme.

2. Next year (cont.)

- **(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.

3. More than a year

- **(Europe) Q4 2023**:
  - EBA: i) Follow up report on IFRS 9 implementation; ii) RTS on the assessment methodology for the IMA (CP);viii) RTS on specifying the elements and components of ICT risk management framework (DORA); ix) RTS on simplified ICT risk management framework (DORA).
  - EIOPA: i) Cyber risk stress testing framework and enhancing the incorporation of cyber risk assessment into the current risk dashboard framework.

Application dates

1. Next quarter

- **(Europe) Q4 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.
  - Presentation of the preliminary analysis of the Resolution Feasibility Analysis (SAR) or SAR and transfer playbook.
  - Disclosure of Article 7 of the SFDR on PAI at product level.

2. Next 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.
- **(Global) January 2023**:
  - 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.
  - BCBS technical amendment on the capital treatment of securitisations of NPLs.
  - 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.
- **(UK) July 2023:**
  - Rules and guidance introduced by the Consumer Duty in relation to new and existing products or services that are open to sale.
- **(Europe) September 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.

3. More than a year

- **(Europe) January 2024**:
  - EBA Guidelines on resolvability.
  - EBA final guidelines on transferability.
  - CSRD: application for companies already subject to the NFRD.
- **(Europe) June 2024**:
  - First date of reference for disclosure of additional (vs GAR) BTAR information.
- **(UK) July 2024**:
  - Rules and guidance introduced by the Consumer Duty in relation for closed products or services.
- **(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.
- **(Europe) January 2025**:
  - CSRD: application for large companies not currently subject to the NFRD.
- **(Europe) January 2026**:
  - CSRD: application for listed SMEs, as well as for small and non-complex credit institutions and captive insurance companies.

Publications of the quarter

Summary of outstanding publications of this quarter

Topic	Title	Date	Page
	European Central Bank		
Stress Test	• 2022 climate stress test results	08/07/2022	11
	European Banking Authority		
Stress Test	• 2023 EU-wide stress test methodology	22/07/2022	12
IRB	• Consultation paper on the supervisory handbook on the validation of IRB rating systems.	28/07/2022	13
Work - programme	• Annual work programme for 2023	29/09/2022	14
	European Insurance and Ocuppational Pensions Authority		
Climate change scenarios	• Application guidance on running climate change materiality assessment and using climate change scenarios in the ORSA..	02/08/2022	15
Work - programme	• Work Programme 2023		17
	General Courts		
Pension plans	• Law 12/2022 on the regulation for the promotion of occupational pension plans.	01/07/2022	18
	Federal Reserve		
Stress Test	• 2022 Federal Reserve Stress Test Results	01/07/2022	19
	Financial Conduct Authority		
Climate Change	• Results of the 2021 Climate Biennial Exploratory Scenario: Financial risks from climate change.	01/08/2022	20
	OCC/FDIC/NCUA		
Real State loans	• Proposed Policy Statement on Prudent Commercial Real Estate Loan Accommodations and Workouts.	02/08/2022	22
	Bank of England		
Stress test	• Key elements of the 2022 Stress Test.	26/09/2022	23

Publications of the quarter
European publications

EUROPEAN CENTRAL BANK
EUROSYSTEM

08/07/2022
2022 climate stress test results

1. Context

The ECB is required to carry out annual stress tests on supervised entities in the context of its Supervisory Review and Evaluation Process (SREP). In this line, the ECB published in October 2021 the climate risk stress test methodology which outlines the main characteristics of the 2022 exercise and provides banks with guidance on how to conduct it. In January 2022, the supervisory climate risk stress test was launched in order to assess how prepared banks are for dealing with financial and economic shocks stemming from climate risk.

In this context, the ECB has published the **2022 climate risk stress test results** which show that banks do not yet sufficiently incorporate climate risk into their stress-testing frameworks and internal models, despite some progress made since 2020.

2. Main points

- **Scope**. A total of 104 significant banks participated in the test consisting of three modules, in which banks provided information on their: i) own climate stress-testing capabilities, ii) reliance on carbon-emitting sectors, and iii) performance under different scenarios over several time horizons. The bottom-up stress test within the third module was limited to 41 directly supervised banks to ensure proportionality towards smaller banks.
- **Qualitative findings**. The analysis of the qualitative questionnaires allowed the ECB to gain an overview of the banks' climate risk stress-testing capabilities, including their framework, governance and modelling practices.
    - First module. The results of the qualitative questionnaire show that around 60% of banks do not yet have a climate risk stress-testing framework. Around 40% of the banks with a climate risk stress-testing framework in place do not consider climate stress test outcomes when implementing their business strategy, while only 19% of the banks with a CST framework in place use it to inform their loan granting process.
- **Quantitative findings**. Data collection made it possible to assess the degree to which institutions' income relies on the financing of Green House Gas (GHG) emitting corporate sectors.
    - Second module. Institutions reported that on average, more than 60% of their interest income was derived from business with non-financial corporate customers belonging to the 22 carbon-intensive sectors (e.g. construction). The extent to which this could give rise to climate risk will depend on the transition plans of the counterparties in these high-emitting sectors. For banks to be able to gauge their exposure to climate risks in the future, it will therefore be important for them to enhance their customer engagement to gain insights into their clients' transition plans. In relation to financed emissions by banks, it is observed, in many cases, these come from a small number of large counterparties, which increases their transition risk.
    - Third module. Findings show that banks' vulnerability to a drought and heat scenario is highly dependent on sectoral activities and the geographical location of their exposures. The impact of this risk materialises through a decrease in sectoral productivity, such as agricultural activities, construction or mining. Similarly, in the flood risk scenario, real estate collateral and underlying mortgages and corporate loans are expected to suffer, particularly in the most affected locations. In relation to long-term projections, it is observed that losses projected are lower in the orderly transition scenario than in a disorderly or no policy action scenario. Banks are vulnerable to an abrupt and large increase in transition risk shock in the short term, showing an increase in cumulated impairments of around 73 basis points compared with the baseline over the scenario horizon. Taken together, under a short-term, three-year disorderly transition risk scenario and the two physical risk scenarios (flood risk and drought and heat risk, respectively), the combined credit and market risk losses for the 41 banks that provided projections would amount to around €70 billion.
- **Data gaps identified**.
    - Most banks are making extensive use of proxies instead of actual counterparty data to measure climate-related aspects, such as Scope 1, 2 and (more often) 3 emissions and energy performance certificates for housing collateral.
    - The ECB considers that banks need to invest more in climate-relevant data collection and become less dependent on the use of proxies, particularly in view of possible developments in climate risk disclosure regulations. The ECB expects banks to step up their customer engagement and make significant progress in developing data infrastructures that allow for proper counterparty assessments.

3. Next Steps

- The results will feed qualitative elements into the SREP, but will not direct impact on capital through Pillar 2 guidance recommendations in 2022.
- The SREP will jointly integrate the findings from the 2022 CST and the thematic review on climate-related and environmental risk.

22/07/2022
2023 EU-wide stress test methodology

1. Context

The EBA is required to initiate and coordinate EU-wide stress tests. The objective of the EU-wide stress test is to provide supervisors, banks and other market participants with a common analytical framework to consistently compare and assess the resilience of EU banks and the EU banking system to shocks, and to challenge the capital position of EU banks. In March 2020, the EBA decided to postpone the EU-wide stress test exercise to 2021 to allow banks to focus on and ensure continuity of their core operations, including support for their customers. The exercise was launched in January 2021 and the results were published in July of the same year.

In this context, the EBA has published its **2023 EU-wide stress test draft methodology, templates and template guidance**. The methodology covers all risk areas and builds on the one prepared for the 2021 EU wide stress test. Some aspects of the methodology have been improved based on the lessons learned from the previous exercise. As a new feature, the projections on net fee and commission income (NFCI) will be based on a top-down model. This is a first step of revising the EU-wide stress test framework towards a hybrid (bottom-up and top-down) approach
.

2. Main points

- **Sample of banks and scope of consolidation**.
  - The sample for the 2023 EU-wide stress test has been enlarged compared to previous exercises. 26 more banks than in the 2021 exercise will participate, which is a total of 76 banks covering 75% of the banking sector in the euro area, each non-euro area EU Member State and Norway, which is a 5% higher than the previous exercise. Due to specific business models, certain banks have been excluded from the sample (according to their total assets would have been included).
  - To be included in the sample, banks have to hold a minimum of €30 billion in assets. Nonetheless, Competent Authorities (CAs) could request to include additional institutions in their jurisdiction.
  - The scope of consolidation is the perimeter of the banking group as defined by the CRR/CRD.
- **Macroeconomic scenarios and reference date**. The stress test includes a baseline scenario and an adverse scenario. The exercise is carried out on the basis of year-end 2022 figures, and the scenarios will be applied over a period of 3 years from end 2023 to end 2025.
- **Risk coverage**.
  - Banks are required to stress test the following common set of risks:
    - **Credit risk**, including securitisation.
    - **Market risk**, counterparty credit risk (CCR) and credit valuation adjustment (CVA).
    - **Operational risk**, including conduct risk.
  - Banks are also requested to project the effect of the scenarios on net interest income (NII) and to stress P&L and capital items not covered by other risk types. In this regard, and as a novelty, impact on NFCI is projected using prescribed growth rate parameters.
  - The risks arising from sovereign exposures are covered in credit risk and in market risk, depending on their accounting treatment.
- **Regulatory regime and hurdle rates**.
  - The impact of the EU-wide stress test will be reported in terms of CET1. In addition, the Tier 1 capital ratio and total capital ratio, as well as the leverage ratio, will be reported for every year of the exercise.
  - Like in the 2016, 2018 and 2021 stress test, no hurdle rates or capital thresholds are defined for the purpose of the exercise. CAs will apply the results as an input to the SREP.
- **Process**. It involves close cooperation between the EBA, the CAs and the ECB, as well as the European Systemic Risk Board (ESRB) and the European Commission (EC).
  - The ESRB and the ECB develop the adverse macroeconomic scenario and any risk type specific shocks linked to it.
  - The ECB supplies the macroeconomic baseline scenario.
  - The EBA coordinates the exercise, defines the common methodology as well as the minimum quality assurance guidance for competent authorities.
  - The CAs are responsible for the quality assurance process.
- **Main changes on the templates**.
  - An additional tab is required (CSV-LR-MDA) containing the calculation of the Leverage Ratio (LR) Maximum Distributable Amount (MDA), taking into account the requirements for G-SIIs. G-SIIs are expected to complete this template after having filled in the template CSV_MDA. All other banks shall leave this template empty.

3. Next steps
- The final methodology will be published by the **end of 2022**.
- The exercise will be launched in **January 2023** and the results are expected to be published by **the end of July 2023**.

28/07/2022
Consultation paper on the supervisory handbook on the validation of IRB rating systems

1. Context

In 2010, it was published the Regulation establishing a European Supervisory Authority, the EBA. This Regulation stipulates that the EBA shall develop and maintain an up-to-date Union supervisory handbook on the supervision of financial institutions which is to set out supervisory best practices and high-quality methodologies and processes. Therefore, in 2016 it was published the roadmap to repair internal models used to calculate own funds requirements for credit risk under the Internal Ratings Based (IRB) approach and later in 2019, a progress report of this roadmap.

In this context, the EBA has published a **Consultation Paper (CP) on the supervisory handbook on the validation of IRB rating systems**, which complements the roadmap and provides some general guidance on the expectations relative to the validation function without presenting any specific methodology to be used.

2. Main points

- **General requirements.** This requirements are applicable to the validation function:
  - Scope. The internal validation should be conducted at each level where a Competent Authority (CA) has granted an approval for a rating system.
  - Validation policy and validation report. The validation policy is expected to describe the validation framework, i.e. the roles, responsibilities, processes and content of the validation activities that need to be performed.
  - Validation tasks. Institutions shall have robust systems in place to validate the accuracy and consistency of rating systems, processes and the estimation of all relevant risk parameters. The techniques that are expected to be used should include quantitative as well as qualitative methods.
- **Validation content**. A differentiation must be made between the tasks related to the pure model performance assessment and the ones dealing with on the modelling environment.
  - Assessment of the core model performance. One of the objectives of the validation function is to assess the core performance of the rating system and this assessment can be broken down in:
    - **Risk differentiation**: its dimensions are: i) the consistency and comprehensiveness of the rating assignment process; and ii) the accuracy of the rating assignment in the model development.
    - **Risk quantification**: its dimensions are: i) the accuracy of the best estimates; ii) the conservatism of the risk estimates; and iii) for the Loss given default (LGD) and Credit conversion factor (CF) parameters, the appropriateness of the estimates.
    - **Specificities**: there are several specificities related to the validation of: i) defaulted exposures; ii) credit risk mitigation; and iii) Exposures risk weighted according to the slotting approach.
  - Assessment of the modelling environment. To ensure a proper assessment of the data quality and maintenance, the data quality framework should clearly define policies, roles and responsibilities in data processing and data quality management. Furthermore, the validation function is expected to verify the adequacy of the implementation of internal ratings and risk parameters in IT systems.
- **First validation of newly developed rating systems**. It refers to the validation of either a newly introduced models or the validation of changes or extensions to changed models. In the first validation it is important to address the model design and risk quantification choices and in case of a model change, the validation function is expected to compare the performance of the new models with the previous ones.
- **Subsequent validation**. It refers to the validation of either an unchanged model or the validation of unchanged aspects. The subsequent validation differs from the first validation in two ways: i) It benefits from additional data and observations; and ii) it has at its disposal previous conclusions from the first validation. In both the first and the subsequent validation there are certain specificities in relation to the performance of the core model and the modelling environment.
- **Validation challenges**. It refers to the validation of either an unchanged model or the validation of unchanged aspects. The subsequent validation differs from the first validation in two ways: i) It benefits from additional data and observations; and ii) it has at its disposal previous conclusions from the first validation. In both the first and the subsequent validation there are certain specificities in relation to the performance of the core model and the modelling environment.
  - Use of external data in the model development. The validation of a rating system built on external data is expected to follow five principles: i) representativeness; ii) access to data; iii) methodological choices' assessment; iv) performance assessment; v) data quality.
  - Outsourcing of validation task. It is expected that the institution perform a comprehensive analysis of its compliance with all the regulatory requirements on outsourcing.
  - Validation in the context of data scarcity. The validation of ratings systems in a context of data scarcity brings some additional challenges, for example, the adaptation of the validation policy.

3. Next Steps

- Comments to this CP can be sent before **28 October 2022**.

29/09/2022
Annual work porgramme for 2023

1. Context

The EBA has published the 2023 work programme describing the key strategic areas of work for the Authority for the coming year, as well as related activities and tasks. Compared to the 2022 work programme, adjustments have been introduced to reflect new mandates expected in 2023, especially the political agreements reached on the Digital Operational Resilience Act (DORA) and European Commission's Regulation of Markets in Crypto-assets (MiCA) texts.

2. Main points

- The EBA's priorities focus on:
    - Finalise the Basel implementation in the EU. Priority will be given to the implementation of the outstanding Basel III reforms in the EU to ensure banks can withstand future crises. In this regard, the EBA will publish several Guidelines (GL) on credit risk (e.g. GL on calculation of K IRB for dilution and credit risk (CP)), and Regulatory Technical Standards (RTS) in relation to market risk (e.g. RTS on the assessment methodology for the internal models approach).
    - Run an enhanced 2023 EU-wide stress test. In this exercise, the projections on net fee and commission income (NFCI) will be based on a top-down model. This is a first step of revising the EU-wide stress test framework towards a hybrid (bottom-up and top-down) approach.
    - Data at the service of stakeholders. The EBA will continue to implement its Data Strategy aiming to improve the way regulatory data is acquired, compiled, used, and disseminated to relevant stakeholders. Therefore, for 2023 will also complete the first phase of Digital Regulatory Reporting (DRR) tools that will help the efficient creation and maintenance of the data dictionary related with reporting requirements.
    - Digital finance and the delivery of MiCA/DORA mandates. The EBA, together with the other European supervisory authorities (ESAs), will need to develop the vast policy work from MiCA and DORA in advance of the application date (1 January 2025). For example, it will develop RTS on specifying the elements and components of ICT risk management framework (art 14 DORA).
    - Enhancing capacity to fight Money Laundering/ Financing of Terrorism (ML/FT) in the EU. The EBA will continue to lead, coordinate, and monitor the EU financial sector's fight against ML/TF. In this regard, the EBA for example will publish revised guidelines on ML/TF risk factors.
    - Execution of the ESG roadmap. Finally, ESG risk assessment tools will be further developed to enable efficient monitoring of ESG risks in the banking sector and development of the green financial market. In this respect, the EBA is developing ESG risk assessment and monitoring tools and will publish in 2023 an annual report under Article 18 of the Sustainable Finance Disclosure Regulation (SFDR), on best practices and disclosure recommendations.

European Insurance and Occupational Pensions Authority

02/08/2022
Application guidance on running climate change materiality assessment and using climate change scenarios in the ORSA

1. Context

In April 2021 the EIOPA published an Opinion on the supervision of the use of climate change risk scenarios in ORSA. Given that undertakings will be impacted by climate change-related physical and transition risks, EIOPA believes it is important to encourage a forward-looking management of these risks, also in the long term. During the public consultation of the Opinion, nearly all respondents provided comments and suggestions on the application guidance for developing and including climate change risk scenarios in ORSA . EIOPA therefore decided to elaborate a Consultation Paper (CP) on an application guidance in December 2021.

In this context, the EIOPA has published the **Application guidance on running climate change materiality assessment and using climate change scenarios in the ORSA**, seeing the advantages of developing and providing optional guidance for materiality assessment in the context of climate change scenario design and specifications using concrete case studies. This would also contribute to lowering implementation costs for insurance undertakings, in particular small- and mid-sized ones, and to enhancing the comparability of reported information. As a novelty to the CP, the sections on climate change scenario analysis are modified and reference to Methodological principles of insurance stress testing climate risks EIOPA is introduced.

2. Main points

- **The ORSA and climate change.** Climate change risk can translate into physical and transition risk, and can have material impact on the undertakings. Given the potential impact, undertakings are expected to integrate climate change risks into their ORSA by describing and assessing the impact of these risks on their risk profile. Some god practices are.
  - To address climate change risks in more than one (sub) chapter of the ORSA report.
  - To mention to what extent the impact of climate change risks has been analyzed in previous years.
  - To distinguish between physical and transition risks, explaining their assessed impacts in the short, medium and long term.
- **General insights**.
  - Materiality assessment. A first step when considering climate change risks in the ORSA is to assess the materiality. In order to conduct such assessment, the Guidance explains the following steps, which could be considered by the undertakings:
    - Defining the **business context** where they would be exposed to climate change risks. E.g impacted insurance activities or the time horizon considered.
    - Researching **impacts of climate change** on the business, distinguishing between transition and physical risk.
    - Assessing **relevance to the business**, i.e the materiality of each climate change risk on both sides of the balance sheet. The materiality assessment could be summarized in a so-called materiality matrix considering three dimensions: i) the impact; ii) the probability and iii) time horizon.
  - Climate change scenario. For material risks undertakings shall proceed to run climate change scenarios and for non-material risks explain in the ORSA why. The Guidance explains three steps that could be followed in order to conduct this analysis:
    - **Defining the scenario**. Undertakings are expected to consider at least two long-term climate scenarios but the guidelines analyses shorter-term scenarios as they will also be relevant for the businesses: transition scenarios and physical scenarios.
    - **Transforming scenario into climate change risks**. Different transition scenarios will results in different transition risks and different GHG emission pathways will result into different physical risks. For the first type of risks the final document has included the set of transition pathways developed by the Network for Greening the Financial System (NGFS), which seem particularly relevant for climate change related risks. The final document have included a summarize list of indicators (for physical risk, transition risk or both) to provide a comprehensive picture of the major drivers behind the impact of the prescribed scenarios on balance sheet items, solvency or other variables.
    - **Transforming climate change risks into financial losses**.

•**Concrete examples**. Using the dummy non-life and life companies the Guidance provides examples on materiality assessment and running climate change scenarios:
  - Materiality assessment. The examples show how materiality assessment could be performed for the asset side and the liability side. The examples first focus on a qualitative analysis considering both physical and transitions risks for the assets. In a second step, to complement the qualitative analysis, more quantitative analyses are performed. The assessment shows that:
    - The most prominent risk for the **dummy non-life company** is linked **with physical risks on the liability side**.
    - The most prominent risk for the **dummy life** company is linked with **transition risks on the asset side**.

- Climate change scenario.
    - Examples on climate change scenario analysis for **dummy non-life company** focus at physical risk on the liability side. Four ways to perform scenario analysis on flood risks have been considered in order to show different sources of data to be used for such analysis but also the advantages/disadvantages associated with each of them.
    - Examples on climate change scenario analysis for **dummy life company** use three different approaches. The new document have changed the first approach (use a combined climate risk scenario) by the approach of adapt traditional techniques to climate change. Additionally, a section of other existing Stress Test exercises have been included.

30/09/2022
Single Programming Document 2022-2024

1. Context

The **EIOPA Strategy for the period 2023-2026** sets out EIOPA's plans for the coming years, which have been designed taking into account the current geopolitical and economic context. This includes the Russia's unprovoked invasion of Ukraine coupled with lingering effects of the pandemic, market volatility and inflation. Additionally, the EIOPA has published its **Single Programming Document**, including the **Annual Work Programme for 2023.** This document sets out the key activities planned for 2023.

2. Main points

- EIOPA has identified six **strategic priorities.** For each objective some **regulatory provisions for 2023** have been outlined.
  - Address sustainability related challenges, contributing to building up sustainable insurance and pensions, including by addressing protection gaps, for the benefit of citizens and businesses.
    - Update the regulatory technical standards (RTS) to clarify **environmental and social indicators.**
  - Supporting the market and supervisory community through digital transformation, helping the supervisory community and industry to mitigate the risks and seize the opportunities of the digital changes, including by further promoting a data-driven culture.
    - Deliver the Regulatory and Implementing Technical Standards (ITS) from **DORA.**
    - Developing a sound regime for the use of **artificial intelligence (AI)** by the insurance sector.
  - Strengthen supervisory convergence, promoting sound, efficient and consistent prudential and conduct supervision throughout Europe, particularly in view of increased cross-border business. Through digital literacy initiatives and work, EIOPA will also strive to promote accessibility.
  - Ensuring technically sound prudential and conduct of business policy, delivering high-quality advice and other policy work taking into account changing and growing needs of society as well as the effects of new horizontal regulation. EIOPA aims to create an ecosystem that supports financial resilience and enhances the financial health of consumers, taking into account diversity and inclusion considerations.
    - Delivering advice in relation to the review of the **IORP II Directive**.
  - Further enhance financial stability, with particular focus on the analysis of financial sector risks, vulnerabilities, and emerging threats. EIOPA aims at further building up its reputation for sound evidence-based analysis, which takes into account sustainability considerations, including through stress tests exercises. Improved modelling, also based on Artificial Intelligence techniques, and increased use of predictive approaches, such as early warning models, shall contribute to enhancing the quality of the analysis, thereby also better accounting for country specificities.
    - Initiating one-off coordinated **climate change stress test**.
  - Ensuring good internal governance, being a model EU Authority with high professional standards and cost-effective governance. EIOPA aims to further strengthen its organisational capabilities, in particular through the use of technology to facilitate collaboration, increase efficiency and security and drive long-term performance in a post pandemic working environment.

Publications of the quarter

Local publications

01/07/2022
Law 12/2022 on the regulation for the promotion of occupational pension plans

1. Context

Over the years, the assets managed in occupational pension funds have lost relative weight with respect to the total number of pension funds, since they represented 50% of the total complementary social provision at the beginning of the 1990s, whereas now they represent a percentage slightly above 25%. In addition, the level of savings through occupational pension plans in Spain is less than 1 per cent of the wage bill of the working population, reaching just over 10 per cent of the working population. The small average size of Spanish pension fund assets is an element that affects their efficiency in terms of management costs and, ultimately, their profitability.

In this context, the General Courts have approved **Law 12/2022 on the regulation for the promotion of occupational pension plans**, which amends Royal Decree 1/2002, with the aim of encouraging the existence of publicly promoted occupational pension funds of an adequate size to guarantee the lowest management costs, allow a diversified distribution of investments and, therefore, improve profitability levels.

2. Main points

The new law incorporates a number of new features with respect to Royal Decree 1/2022 on the regulation of occupational pension plans:

- **Addition of two new chapters.**
    - <u>Chapter XI. Open public occupational pension fund</u>. The new law includes a number of provisions on such funds:
        - **Characteristics**. Open public occupational pension funds are those promoted by the Ministry of Inclusion, Social Security and Migration through the Promotion and Monitoring Commission created for this purpose. Simplified occupational pension plans and defined-contribution occupational pension plans for the retirement contingency can be integrated into this type of fund.
        - **Financial regime.** The assets of the funds shall be invested exclusively in the interest of the participants and beneficiaries, taking into account the profitability, risk and social and environmental impact of the investments. The investment strategy of these funds shall set out guidelines regarding: i) the limits and purpose of derivative transactions; ii) specific criteria for safety, profitability, diversification, dispersion and consistency of investments.
        - **Management and depository institutions.** In addition to meeting a series of requirements, managing entities must use a regulated digital platform and follow the open selection process regulated by Law 9/2017 on public sector contracts.
    - <u>Chapter XII. Simplified occupational pension schemes</u>. This type of fund can be integrated either in an open public occupational pension fund or in a private occupational pension fund. In addition, it can be promoted by:
        - Undertakings covered by **sectoral agreements** linked to collective agreements.
        - **Public administrations and public undertakings**.
        - **Associations**, **federations**, confederations or unions of associations of self-employed workers or self-employed persons.
        - **Cooperative** or **labour companies**
- **Amendment of existing provisions.** Some provisions have undergone minor wording changes, e.g. the amendment of Article 4 on the modalities of pension schemes or the amendment of Article 9 on the approval and review of pension schemes. On the other hand, Article 5 on the basic principles of pension schemes has also been amended. Specifically, the limit on total maximum annual company contributions and contributions to pension plans can be increased by applying the coefficients included in the new law.

3. Next steps

- This law has entered into force on **the day following its publication** in the Official State Journal (BOE)..

01/07/2022
2022 Federal Reserve Stress Test Results

1. Context

The Fed's stress test evaluate the resilience of large banks by estimating their capital levels, losses, revenue and expenses under hypothetical scenarios over nine future quarters. In early 2022, the Fed published these scenarios, which were tougher than the 2021 test, due to their design, and inclusion of a severe global recession with substantial stress in commercial real estate and corporate debt markets.

In this context, the Fed has released the **2022 stress test results** which showed that banks continue to have strong capital levels, allowing them to continue lending to households and businesses during a severe recession.

2. Main points

A total of 34 banks were required to participate in this year's exercise and the results include the following information.

- **Capital**. The results indicate that large banks would experience substantial losses under the severely adverse scenario but would maintain capital ratios well above minimum risk-based
- requirements. The aggregate CET1 capital ratio is projected to decline from 12.4 percent at the start of the projection horizon to 10.3 percent at the end of nine quarters.
- **Pre-tax Net Income**. Over the nine quarters of the projection horizon, aggregate cumulative pre-tax net income is projected to be negative $198 billion. Furthermore, this is negative for 21 banks out of the total sample and varies considerably across banks, ranging from negative 2.7 percent to positive 2.7 percent. This range reflects differences in the sensitivity of the various components of pre-tax net income to the economic and financial market conditions in the severely adverse scenario.
- **Losses**. Aggregate losses on loans and other positions are projected to be $612 billion. These losses are comprised mainly of: i) $463 billion in loan losses; ii) $43 billion in additional losses from items such as loans booked under the fair-value option; and iii) $100 billion in trading and counterparty losses.
- **Pre-provision Net Revenue (PPNR)**. Banks are projected to generate an aggregate of $412 billion in PPNR which is equal to 2.0 percent of their combined average assets. The ratio of PPNR to average assets varies across banks, primarily reflecting differences in business focus. For instance, the ratio of PPNR to assets tends to be higher at banks focusing on credit card lending.

01/08/2022
A new Consumer Duty.

1. Context

In 2018 the FCA disclosed a discussion paper (DP18/5) which discussed stakeholders' concerns that the regulatory framework may not be adequate to tackle the level of consumer harm in retail markets. Later, the FCA published the subsequent feedback statement (FS19/2), setting out the intention to take forward specific options for change. Finally, on May 2021 the FCA released the first Consultation Paper (CP21/13) on a A new Consumer Duty and in December 2021, the FCA consulted on the final proposals for the Duty, including draft rules and guidance (CP21/36).

In this context, the FCA has published the **Policy Statement (PS) which presents the feedback to CP21/36 alongside the final rules (named Consumer Duty Instrumet 2022)**. The rules set higher and clearer standards of consumer protection across financial services and require firms to put their customers' needs first and to evidence whether this outcome is being met. Additionally, the FCA has published the **Finalised Guidance (FG) which contains the non-Handbook guidance for firms on the Consumer Duty** which provides further instructions to firms on how they should comply with their obligations including examples of how specific elements of the Duty would work in practice across different retail markets. The analysis below focuses on the general rules set in the PS.

2. Main points

- **Scope of application.**
    - The Duty applies to the regulated activities and ancillary activities of all firms authorised under the Financial Services and Markets Act 2000 (FSMA), the Payment Services Regulations 2017 (PSRs) and E-money Regulations 2011 (EMRs), in respect of products and services for prospective and actual retail customers.
    - The Duty does not have a retrospective effect and does not apply to past actions by firms. However, the Duty does apply, on a forward-looking basis, to:
        - **existing products and services.** these are products and services still on sale to new customers or available for renewal by existing customers.
        - **closed book products and services.** these are products and services that are no longer on sale to new customers or available for renewal by existing customers..
- **New Consumer Principle.** The FCA has introduced a new consumer principle (Principle 12) which requires firms to act to deliver good outcomes for retail customers. It sets a higher standard than both existing principles 6 and 7. Principle 12 imposes obligations on firms towards customers of products and services, irrespective of whether the customer is a direct client of the firm.
- **Cross cutting rules.** The new cross-cutting rules set out how firms should act to deliver good outcomes for retail customers. These cross cutting rules require firms to: i) act in good faith; ii) avoid causing foreseeable harm and iii) enable and support retail customers to pursue their financial objectives.
- **Four outcomes.** FCA has introduced four expected outcomes under the application of the Duty. These are a suite of rules and guidance setting more detailed expectations for firm conduct in four areas that represent key elements of the firm consumer relationship, which are instrumental in helping to drive good outcomes for customers. These outcomes relate to: i) products and services; ii) price and value; iii) consumer understanding and iv) consumer support.
- **Culture, governance and accountability**. The rules require firms to ensure their strategies, governance, leadership, and people policies (including incentives at all levels) lead to good outcomes for customers. The rules also make clear that FCA expects customer outcomes to be a key lens for important areas, such as Risk and Internal Audit. This should be supported by individual accountability and personal conduct resulting from the Senior Managers & Certification Regime (SM&CR) rules:
    - In this regard, the FCA has introduced minor changes to the individual conduct rule (rule 6) in order to reflect the higher standard of the Duty, and the behaviour expected of all conduct staff.
- **Monitoring outcomes**. A key part of the Duty is that firms assess, test, understand and are able to evidence the outcomes their customers are receiving. The general obligations set are:
    - Monitor and regularly review the outcomes their customers are experiencing to ensure that the products and services that firms provide are delivering outcomes consistent with the Duty.
    - Identify where customers or groups of customers are not getting good outcomes and understand why.
    - Have processes in place to adapt and change products and services, or policies and practices, to address any risks or issues identified and stop it occurring again in the future.

    A firm's governing body should review and approve the firm's assessment of whether it is delivering good outcomes for its customers which are consistent with the Duty and agree any action required, at least annually.

3. Next steps

- The rules and guidance introduced come into force on a phased basis:
    - for new and existing products or services that are open to sale or renewal the rules come into force on 31 July 2023.
    - for closed products or services, the rules come into force on 31 July 2024.

- The FCA has set out its expectation and a roadmap for how firms will use this implementation period to effectively embed the Duty:
  - By the end of **October 2022**, firms' boards (or equivalent management body) should have agreed their implementation plans and be able to evidence they have scrutinised and challenged the plans to ensure they are deliverable and robust to meet the new standards
  - o Manufactures of products and services should aim to complete all the reviews necessary to meet the four outcome rules for their existing open products and services by the end of **April 2023**.

02/08/2022

Proposed Policy Statement on Prudent Commercial Real Estate Loan Accommodations and Workouts.

1. Context

On October 2009, the agencies adopted the Policy Statement on Prudent Commercial Real Estate Loan Workouts (2009 Statement) as a useful resource in understanding risk management and accounting practices for commercial real estate (CRE) loan workouts. Currently, more than 98 percent of banks engage in CRE lending, and CRE loans are the largest loan portfolio type for nearly half of all banks. In 2020, the COVID-19 pandemic led to stress across several CRE property types and has been compounded by other ongoing issues such as inflation, supply chain imbalances, labor challenges, and vulnerability to rising interest rates.

In this context, the OCC, the FDIC and the NCUA in consultation with state bank and credit union regulators, are inviting comment on a **Proposed Policy Statement for prudent commercial real estate loan accommodations and workouts** in order to assist financial institutions, given these challenges and risks related to CRE lending. The proposed statement updates and expands the 2009 Statement by incorporating recent policy guidance on loan accommodations and accounting developments for estimating loan losses.

2. Main points

The proposed Statement includes the following additional changes:

- **Addition of a new section on short-term loan accommodations.** The proposed Statement would identify short-term loan accommodations as a tool that can be used to mitigate adverse effects on borrowers and would encourage financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations during periods of financial stress. This section of the proposed Statement would incorporate principles consistent with existing interagency guidance on accommodations.
- **Information about changes in accounting principles since 2009.** The proposed Statement also would reflect changes in generally accepted accounting principles (GAAP) including those in relation to current expected credit losses (CECL):
    - The section for Regulatory Reporting and Accounting Considerations would be modified to include CECL references.
    - Appendices 5 and 6 of the proposed Statement would address the relevant accounting and regulatory guidance on estimating loan losses for financial institutions that use the CECL methodology, or incurred loss methodology, respectively.
    - The agencies have modified sections of the proposed Statement to reflect updates that have occurred pertaining to troubled debt restructuring (TDR), for financial institutions that are still required to report TDRs
- **Revisions and additions to examples of CRE loan workouts.** The proposed Statement would include updated information about current industry loan workout practices and revisions to examples of CRE loan workouts:
    - The examples in the proposed Statement are intended to illustrate the application of existing guidance on: i) credit classification; ii) determination of nonaccrual status, and iii) determination of TDR status..
    - (Appendix 2) The proposed Statement also provide an updated summary of selected references to relevant supervisory guidance and accounting standards for: i) real estate lending; ii) appraisals; iii) restructured loans; iv) fair value measurement, and v) regulatory reporting matters such as a loan's nonaccrual status.
    - (Appendix 3) The proposed Statement would retain information about valuation concepts for income-producing real property included in the 2009 Statement.
    - (Appendix 4) The proposed Statement restates the agencies' long-standing special mention and classification definitions that are referenced and applied in the examples in Appendix 1..

Additionally, the Proposed Statement would be consistent with safety and soundness standards for insured depository institutions.

3. Next steps

- Comments to this Proposed Statement should be submitted by **3 October 2022**.

26/09/2022
Key elements of the 2022 Stress Test.

1. Context

Following the COVID-19 outbreak, the Bank of England (BoE) cancelled the 2020 concurrent stress test and instead undertook desktop analysis of the resilience of the UK banking sector to the unfolding stress. In 2015 the stress-testing framework was developed further, and in 2016 the Bank implemented its first annual cyclical scenario (ACS). Having conducted this stress test in 2021, the BoE is reverting to the ACS stress-testing framework for 2022.

In this context, the BoE has published the Guidance on the 2022 annual cyclical scenario for participants , the templates used for collecting data, and the Key elements of the 2022 annual cyclical scenario which provides further details on the 2022 baseline scenario and ACS.

2. Main points

La propuesta de Declaración incluye los siguientes cambios adicionales:

- **Scope.** The 2022 stress test will cover the following banking groups and building societies (hereafter 'banks'):
    - Barclays, HSBC, Lloyds Banking Group, Nationwide, NatWest Group, Santander UK, Standard Chartered y Virgin Money UK.
    - For the first time, the 2022 ACS will assess the ring-fenced subgroups of the existing participating banks on a standalone basis, where these differ materially from the group as a whole. This will include: Barclays Bank UK, HSBC UK Bank, Lloyds Bank and NatWest Holdings.

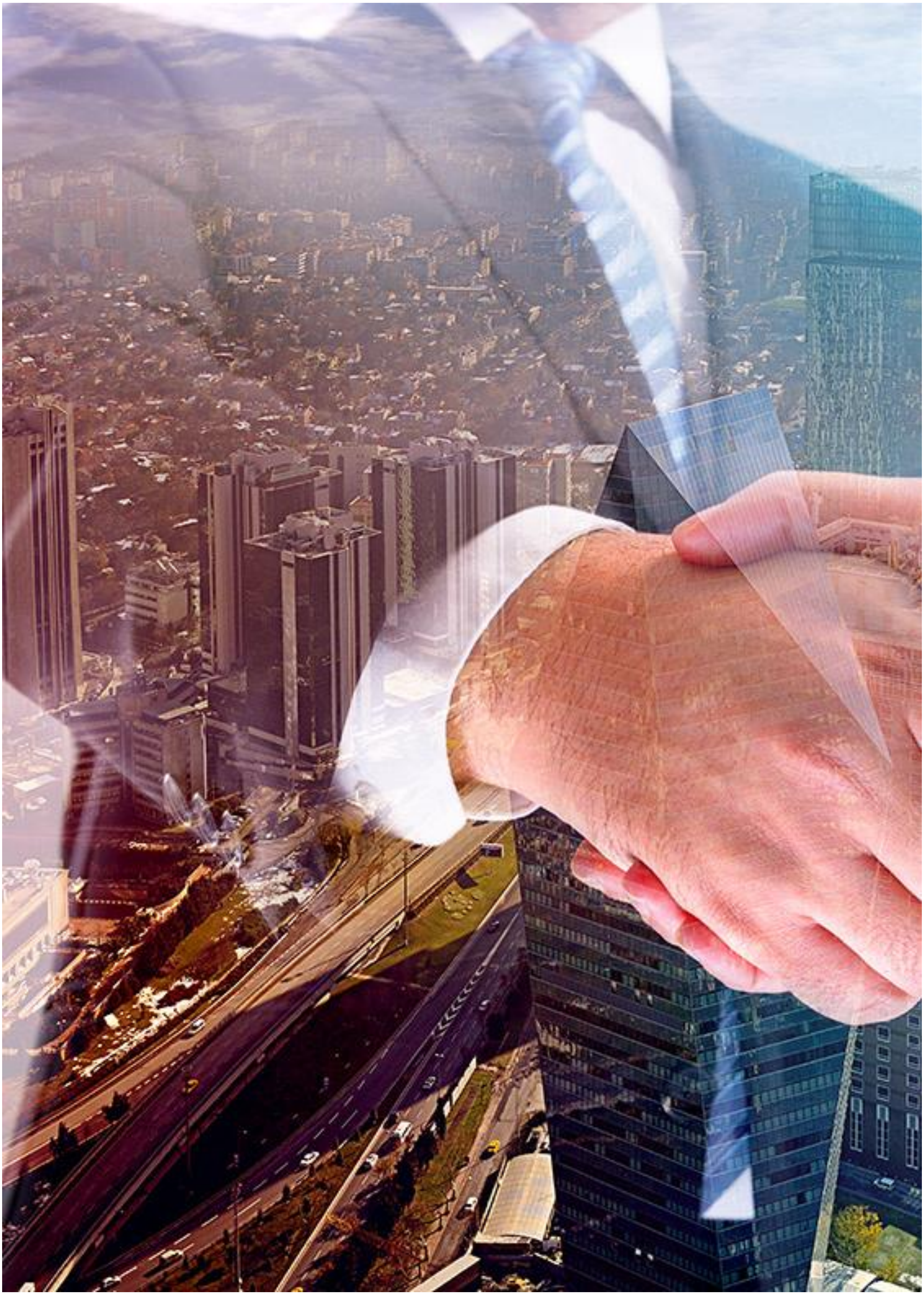
All participating banks should provide results at their highest level of UK consolidation and sub-consolidation (if applicable). Insurance activities are excluded, although banks are expected to assess the impact of the scenarios on their insurance activities and model the impact on any dividend streams, significant investments or minority interest capital deductions and risk weightings.

- **Hurdle rate.** Since 2018 the Bank has adjusted hurdle rates in the stress test to take into account the impact of the IFRS 9. This will continue to be the case in the 2022 ACS.
- **Time horizon and reference date.** The 2022 stress test will cover a five-year horizon. Unless otherwise agreed, the reference date will be 30 June 2022. Exceptions include some traded risk elements. Banks are expected to submit projections as at 30 June for subsequent years unless agreed otherwise with the Bank..
- **Macroeconomic scenario.** Banks should follow the guidance to assess the impact of the baseline and annual cyclical scenarios. In order to do this, it is likely that banks will need to expand the set of macroeconomic and financial variables provided alongside the Key elements document.
- **Libor transition.** The 2022 ACS incorporates an orderly transition from Libor to alternative reference rates in line with planned timelines. For the purposes of the 2022 ACS, banks should make the simplifying assumption that all contracts not renegotiated before the proposed cessation dates can be transitioned through fallback arrangements. Banks should develop projections for the transition of Libor-linked contracts based on the principles set out in the Guidance (e.g market developments).
- **Management actions and mandatory distribution restrictions.** Banks are asked to consider what realistic strategic and business-as-usual management actions could be taken in response to the stress scenario. A description of all material business-as-usual actions should be submitted alongside banks' projections. On the other hand, banks should ensure that the strategic management actions they propose fulfill some characteristics lusted in the guidance.
- **Qualitative review**. In 2022 the Bank will carry out a Delivery Assessment, an assessment of submission quality (focused on errors and resubmissions and explanations provided for the stress results) across the different risk areas. Further details can be found in the guidance for stress-test participants.
- **Policy responses**. The FPC and Prudential Regulation Committee (PRC) will consider how banks perform in the test to determine if any actions are required. Banks that fall below their hurdle rate will generally be required to take action to strengthen their capital position, if they have not already done so. Some banks may see their capital depleted by more than the aggregate effect of the UK economic component of the test.

- **Types of stress**. In common with previous exercises, the 2022 ACS contains three types of stress, which are assumed to be synchronised: a **UK and global macroeconomic stress**, spanning a five-year period from 2022 Q3 to 2027 Q2; a **traded risk stress**, linked to a financial market scenario consistent with the content and calibration of the macroeconomic stress and a **misconduct costs stress**:
    - As a novelty to previous ACS scenarios, it takes into account the latest risk assessment and its severity has been calibrated to ensure greater consistency across different variables.
    - Additionally, this ACS will for the first time test UK banks' resilience to higher global interest rates, in the face of a series of global cost shocks and high and persistent global inflation.
    - The stress scenario is more severe than the global financial crisis for both the UK and the world. In the stress scenario, weaker household real income growth, lower confidence and tighter financial conditions result in severe domestic and global recessions

3. Next steps

- The projections data requested (structured and unstructured) should be submitted to the BoE by **11 January 2023**.
- The qualitative review will be carried out in **2023 H1**.
- The results of the test will be published in **summer 2023** and, along with other relevant information, will be used to help inform banks' capital buffers (both the UK countercyclical capital buffer (CCyB) rate and Prudential Regulation Authority (PRA) buffers). The BoE is committed to disclosing the information necessary to explain the results of the ACS, including sufficient information on ring-fenced subgroups.



Other publications of interest

Capital, liquidity and leverage

Invest firms

(29/07/2022) EBA – EBA publishes its final guidelines on the criteria for the exemption of investment firms from liquidity requirements in accordance with Investment Firms Regulation

The European Banking Authority (EBA) has published its final guidelines on the criteria for the exemption of small and non-interconnected investment firms from the liquidity requirements in accordance with the Investment Firms Regulation (IFR). These Guidelines ensure that all competent authorities granting this exemption follow the same harmonised approach, while preserving the IFR general objective of maintaining the prudential requirements proportional to the size and complexity of the smaller investment firms.

Deposit guarantee schemes

(29/07/2022) EBA – EBA consults on revised Guidelines on methods for calculating contributions to deposit guarantee schemes

The European Banking Authority (EBA) has launched a public consultation on its draft revised Guidelines on deposit guarantee schemes (DGS) contributions. The revised Guidelines aim at enhancing the proportionality between the risk of a credit institution and its contributions to the DGS and at streamlining and simplifying the original Guidelines. The consultation runs until 31 October 2022.

IFRS 17

(08/09/2022) EC - Reglamento de la Comisión por el que se modifica el Reglamento (CE) n.o 1126/2008 en lo que respecta a la Norma Internacional de la IFRS 17

The European Commission (EC) has adopted a Regulation amending the Regulation on the application of international accounting standards, in particular the IFRS 17 on Insurance Contracts. The reason for this amendment is the need to adopt the new updates introduced to the standard in 2021 by the International Accounting Standards Board (IASB), which allows companies to overcome one-time classification differences of comparative information of the previous reporting period upon initial application of IFRS 17 and IFRS 9 on Financial Instruments. This Regulation enters into force on 29 September and is directly applicable in all Member States.

Technical provisions

(16/09/2022) DGSF – Resolución de 6 de septiembre de 2022, de la Dirección General de Seguros y Fondos de Pensiones, por la que se publican las Directrices revisadas de la Autoridad Europea de Seguros y Pensiones de Jubilación sobre la valoración de las provisiones técnicas

The Directorate General for Insurance and Pension Funds has published a Resolution endorsing the revised Guidelines on the valuation of technical provisions developed by EIOPA and applicable from 1 January 2023. These Guidelines were developed to enhance consistency and convergence between Member States in the valuation of technical provisions by insurance and reinsurance undertakings of all types and sizes and to support them in the calculation of technical provisions under Solvency II.

Other publications of interest

Supervision

Cross-border payments

(06/07/2022) FSB - FSB proposes key performance indicators for measuring progress toward the G20 cross-border payments targets

The Financial Stability Board (FSB) has published for public feedback an interim report on the approach for monitoring progress toward meeting the targets for the G20 roadmap for enhancing cross-border payments. The report provides preliminary recommendations about key performance indicators (KPIs) that could be used to monitor progress over time and identifies existing and potential sources of data for calculating those KPIs.

Proporcionality practices

(07/07/2022) BCBS - High-level considerations on proportionality

The Basel Committee on Banking Supervision (BCBS) has published high-level considerations on proportionality. The publication aims to provide practical support to supervisory authorities seeking to implement proportionality in their domestic regulatory and supervisory frameworks, in a way that does not undermine financial stability or the safety of financial institutions. The considerations are built on the Committee's prior work on proportionality, including its statement on proportionality and 2019 and 2021 surveys on proportionality practices.

Cryptoassets

(11/07/2022) FSB - FSB issues statement on the international regulation and supervision of crypto-asset activities

The Financial Stability Board (FSB) has made a statement stablishing that crypto-assets and markets must be subject to effective regulation and oversight commensurate to the risks they pose, both at the domestic and international level. Furthermore, crypto-asset service providers must at all times ensure compliance with existing legal obligations in the jurisdictions in which they operate. Finally, it states that stablecoins should be captured by robust regulations and supervision of relevant authorities if they are to be adopted as a widely used means of payment or otherwise play an important role in the financial system.

Insurance outsourcing

(19/07/2022) EIOPA - EIOPA publishes peer review on outsourcing

The European Insurance and Occupational Pensions Authority (EIOPA) has published a peer review on outsourcing. The peer review assessed the overall maturity of the framework implemented by national supervisory authorities (NSAs) to supervise the outsourced activities of insurance and reinsurance undertakings. The objective of the document is to identify gaps, areas of improvements and best practices to promote consistent and effective supervision in this regard.

SREP

(21/07/2022) EBA – EBA publishes final regulatory products to harmonise the supervisory review and evaluation process of investment firms

The European Banking Authority (EBA) has published the final Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP) for investment firms, which include the following elements: i) business model; ii) governance arrangements; iii) risks to capital; and iv) liquidity risk. The EBA published also the final draft Regulatory Technical Standards (RTS) on Pillar 2 add-ons for these firms. Both regulatory products are based on the Investment Firms Directive and aim to harmonise the supervisory practices of these firms.

Other publications of interest

Supervision

Governance arragements

(01/08/2022) EIOPA – EIOPA consults on governance arrangements in third countries

The European Insurance and Occupational Pensions Authority (EIOPA) is launching a public consultation relating to a draft supervisory statement on the use of governance arrangements in third countries with the aim of enhancing the supervision and monitoring of insurance undertakings' compliance with relevant EU legislation. Comments to the consultation can be sent before 31 October 2022.

- **SUSTAINABILITY**

Climate supervision approach

(22/07/2022) FSB - Public responses to consultation on Supervisory and Regulatory Approaches to Climate-related Risks: Interim Report

Following the launch of the interim report on supervisory and regulatory approaches to climate-related risks for public consultation in April 2022, the Financial Stability Board (FSB) has published the comments received on the report and expects the final report to be available in October this year.

Other publications of interest

Recovery and resolution

Resolvability assestment

(13/07/2022) SRB - SRB publishes Resolvability Assessment and Heat-map

The Single Resolution Board (SRB) has published its assessment of bank resolvability, for the first time. The resolvability assessment for 2021 shows that banks have made significant progress in the SRB's priority areas. In particular, banks have significantly improved their ability to absorb losses and recapitalise in the case of failure by means of steady build-up of their Minimum Requirement for Own Funds and Eligible Liabilities (MREL) capacity, crucial to execute any bail-in strategy.

Product governance

(08/07/2022) ESMA - EMA reviews MiFID II product governance guidelines

The European Securities and Markets Authority (ESMA) has published a consultation paper (CP) on reviewed guidelines on MiFID II product governance guidelines. The main proposals in the draft guidelines relate to: i) the specification of any sustainability-related objectives a product is compatible with; ii) the practice of identifying a target market per cluster of products instead of per individual product; and iii) the periodic review of products. Comments to this CP can be sent before 7 October 2022.

Other publications of interest

Reporting and disclosure

CCPs stress test

(05/07/2022) ESMA - ESMA stress test of central counterparties finds clearing system resilient

The European Securities and Markets Authority (ESMA), has published the results of its fourth stress test exercise of Central Counterparties (CCPs). The results confirm the overall resilience of European Union (EU) CCPs, as well as third-country Tier 2 CCPs, to credit, concentration and operational risks under the tested scenarios and implemented framework. However, the stress test also identified areas where some CCPs may need to strengthen their risk management frameworks, or where further supervisory work should be prioritised, including on concentration and operational risks

Risk dashboard

(01/08/2022) EIOPA – Risk Dashboard shows overall resilient insurance sector even as macro, market and cyber risks abound

The European Insurance and Occupational Pensions Authority (EIOPA) has published its Risk Dashboard based on Solvency II data from the first quarter of 2022. The results show that insurers' exposures to macro, market and digitalisation risks are currently the main concern for the insurance sector. The other risk categories, such as insurance as well as profitability and solvency risks stay at medium levels. Furthermore, market risks are currently at a high level.

Supervisory Reporting

(01/08/2022) EBA - EBA updates version 5.2 of its filing rules for supervisory reporting

The European Banking Authority (EBA) has published an updated version of its 5.2 filing rules document for supervisory reporting.

Benchmark administration

(08/09/2022) FCA - Our supervision strategy for benchmark administrators

La Financial Conduct Authority (FCA) ha publicado una carta en la que desarrolla su estrategia para los administradores de índices de referencia. En esta carta, la FCA describe una serie de cuestiones que espera sean tenidas en cuenta por parte de estos administradores, relativas a: i) la divulgación; ii) los datos de calidad y los controles de datos; iii) la resiliencia operativa; iv) la supervisión y la gobernanza y v) la competencia.

- **SUSTAINABILITY**

Sustainable fianance dislosure

(26/07/2022) EIOPA – Principal adverse impact and product templates for the Sustainable Finance Disclosure Regulation

The European Insurance and Occupational Pensions Authority (EIOPA) has published some documents on principal adverse impact and product templates for the Sustainable Finance Disclosure Regulation (SFDR). This information has been published in the form of annexes to the regulation.

(28/07/2022) ESAs – ESAs issue report on the extent of voluntary disclosure of principal adverse impact under the Sustainable Finance Disclosure Regulation

The European Supervisory Authorities (ESAs) have published the first annual report on the extent of voluntary disclosure of principal adverse impact under the Sustainable Finance Disclosure Regulation (SFDR). The report highlights that: i) there is an overall low level of disclosure on the degree of alignment with the objective of the Paris Agreement; and ii) there is a low level of compliance with the details required for explaining why financial market participants do not take into account the adverse impact of their investment decisions

Other publications of interest

Compliance

SECONDAY MARKETS

(05/07/2022) PRA - CP22/12: Improving Equity Secondary Markets

The Prudential Regulation Authority (PRA) has launched a consultation paper on rule changes to improve trade execution and post-trade transparency for investors, as well as seeking views on future guidance on outages and the structure of UK markets for retail orders. The aim is to improve how equity markets operate and to reduce harm by amending provisions that impose compliance and operational costs on firms but do not deliver demonstratable benefits to end users or to the functioning of equity markets

SECURITIES MARKETS

(29/07/2022) MINECO – Anteproyecto de ley de los mercados de valores y de los servicios de inversión

The Ministerio de Asuntos Económicos y Transformación Digital (MINECO) has published the draft bill on securities markets and investment services, the main objective of which is to modernise the securities markets and improve investor protection, as well as the capacity of the securities markets to finance Spanish companies. The draft includes a series of financial instruments that are subject to the Law, including, as a novelty, those that use distributed registry technology or other similar technologies.

UNDERTAKINGS FOR COLLECTIVE INVESTMENTS

(04/08/2022) CNMV - Circular 3/2022, de 21 de julio, de la Comisión Nacional del Mercado de Valores, sobre el folleto de las instituciones de inversión colectiva y el registro del documento con los datos fundamentales para el inversor

The Official State Gazette (BOE) has published Circular 3/2022 of the National Securities Market Commission (CNMV) on the prospectus of undertakings for collective investment (UCIs) and the registration of the document with the key investor information. Its main changes with respect to the repealed regulation are: i) To align national UCI regulation with European regulations on key investor information documents for linked retail investment products and insurance-based investment products (PRIIPs); ii) To regulate, among other aspects, the form, content and presentation of the UCI prospectus, the causes and forms of its updating, as well as the way it is sent to the CNMV; and iii) To simplify the content of the UCI prospectus. The Circular will enter into force on 1 January 2023. However, a period of one month is established from that date for institutions to send the CNMV the document containing the key investor information.

TREASURY SECURITIES

(14/09/2022) SEC – Proposed rules on Standards for Covered Clearing Agencies for USA Treasury Securities and Application of the Broker-Dealer Customer Protection Rule With Respect to USA Treasury Securities

The Securities and Exchange Commission (SEC) has proposed to amend the standards applicable to covered clearing agencies for U.S. Treasury securities to require that such covered clearing agencies have written policies and procedures reasonably designed to require that every direct participant of the covered clearing agency submit for clearance and settlement all eligible secondary market transactions in USA. Treasury securities to which it is a counterparty. In addition, the Commission proposes additional amendments to the Covered Clearing Agency Standards, with respect to risk management..

- **SUSTAINABILITY**

MINIMUM SAFEGUARD

(11/07/2022) PSF - Call for feedback on the draft report by the Platform on Sustainable finance on minimum safeguards

The Platform on Sustainable Finance (PSF) has published the Draft Report on minimum safeguards. These safeguards set out in the Taxonomy Regulation require that companies implement procedures to comply with OECD Guidelines for multinational enterprises and the United Nations guiding principles on business and human rights. This report aims to provide advice on how to assess compliance with minimum safeguards and identifies four core topics for which compliance with these safeguards should be defined: i) human rights; ii) bribery/corruption; iii) taxation; iv) fair competition. Comments can be sent before 6 September 2022.

Other publications of interest

Technology

Financial sandbox

(27/07/2022) Tesoro público - Cuarta convocatoria del sandbox / Informe anual del Sandbox financiero

The Tesoro Público has published a resolution opening the fourth call for applications for access to the sandbox for the digital transformation of the financial system. The deadline for submitting applications for access to the sandbox by promoters to the Treasury will begin on 1 September 2022 and end on 13 October 2022. On the other hand, the Annual Report of the Financial Sandbox 2021 has also been published, summarising the functioning of the financial sandbox in Spain, as well as the results of the first year. It also highlights the technological profile of the technological projects and international trends in the implementation of a regulatory sandbox.

Other publications of interest

Others

Fallback Rate

(01/07/2022) EMMI - Public consultation on the euro forward-looking term rate EFTERM ®

The European Money Markets Institute (EMMI) has launched a public consultation on the euro forward-looking term rate (EFTERM). This consultation represents a major milestone in the development of this fallback rate. It's also a very good news for EURIBOR users as EFTERM will be an easily accessible option to comply with relevant legal requirements to have robust plans in place for the event that a benchmark ceases to exist. From 1 July to 31 August 2022, all interested parties will have the opportunity to respond to the questions of the consultation.

O-SIIs

(04/07/2022) EBA - EBA updates list of Other Systemically Important Institutions (O-SIIs)

The European Banking Authority (EBA) has updated the list of Other Systemically Important Institutions (O-SIIs) in the EU, which, together with Global Systemically Important Institutions (G-SIIs), are identified as systemically important by the relevant authorities according to harmonised criteria laid down in the EBA Guidelines. This list is based on end-2020 data and also reflects the O-SII score and the capital buffers that the relevant authorities have set for the identified O-SIIs. This year's list is made up of 175 entities.

(22/07/2022) BdE - El Banco de España actualiza la lista de Otras Entidades de Importancia Sistémica y establece sus colchones de capital macroprudenciales para 2023

The Bank of Spain (BdE) has updated the list of Other Systemically Important Institutions (O-SIIs) and has decided to maintain the designation of Banco Santander, BBVA, Banco de Sabadell and CaixaBank as Other Systemically Important Institutions in Spain. The capital buffer associated with each O-SII for 2023 also remains stable, except for CaixaBank, whose requirement increases by 0.125 percentage points (pp) due to its greater systemic relevance following its merger by absorption with Bankia.

(22/07/2022) BoE – CP13/22 - Amendments to the PRA's approach to identifying other systemically important institutions (O-SIIs)

The Bank of England (BoE) has published a Consultation Paper which contains amendments to the PRA's approach to identifying O-SIIs. The proposed amendments involve the removal of the EBA’s scoring methodology from the O-SII identification process, and deletion of the EBA Guidelines, such that O-SII identification is based solely on the PRA’s scoring methodology; and updates to specific indicators and weights in the PRA’s scoring methodology.

Solvency II

(07/07/2022) PRA - PS6/22 | CP17/21 - Solvency II: Definition of an insurance holding company

The Prudential Regulation Authority (PRA) has released a Policy Statement that provides feedback to the responses to Consultation Paper (CP) 17/21 on the definition of an insurance holding company. In the Consultation, it was proposed to clarify the PRA’s expectations on the information required from firms in order to distinguish an insurance holding company from a mixed-activity insurance holding company. The Policy Statement only made minor changes on the CP, that will now come into effect on 7 July 2023.

Equality of treatment

(12/07/2022) CCGG - Ley 15/2022, de 12 de julio, integral para la igualdad de trato y la no discriminación

The Spanish Parliament has approved the Law for equal treatment and non-discrimination, which is based on the European Commission's Recommendation No. 22 against Racism and Intolerance (ECRI). The Law applies to the public sector and to private individuals or legal entities residing, located or operating in Spanish territory. In particular, it regulates inter alia: i) the right to equal treatment and non-discrimination in employment; ii) the right to equal treatment and non-discrimination in the offer of goods and services to the public (public administrations, entities, companies or individuals offering goods and services to the public, in the framework of a commercial or professional activity, such as financial services).

Bilateral margin

(12/07/2022) PRA - CP11/22 - Margin requirements for non-centrally cleared derivatives: Amendments to BTS 2016/2251

The Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) have published a Consultation Paper (CP) that sets out the its proposals to update the list of instruments as eligible collateral for bilateral margin. The purposes of these proposal are to: i) specify the treatment of third-country funds as eligible collateral, including European Economic Area (EEA) Undertakings for Collective Investment in Transferable Securities (UCITS); and ii) update the criteria for a Central Counterparty (CCP) to be excluded from the bilateral margining requirements. Comments to this CP can be sent before 12 October 2022.

Other publications of interest

Others

STABLECOINS

(13/07/2022) IOSCO - CPMI and IOSCO publish final guidance on stablecoin arrangements confirming application of Principles for Financial Market Infrastructure

The Bank for International Settlements' Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) have published final guidance confirming that stablecoin arrangements should observe international standards for payment, clearing and settlement systems. This report provides guidance on the application of the Principles for financial market infrastructures (PFMI) to stablecoin arrangements (SAs) that are considered systemically important financial market infrastructures (FMIs), including the entities integral to such arrangements.

LIBOR

(19/07/2022) FED - Federal Reserve Board invites comment on proposal that provides default rules for certain contracts that use the LIBOR reference rate, which will be discontinued next year

The Federal Reserve Board (FED) has invited comment on a proposal that provides default rules for certain contracts that use the LIBOR reference rate, which will be discontinued next year. The proposal implements the Adjustable Interest Rate (LIBOR) Act, which Congress enacted earlier this year and would replace references to LIBOR in certain contracts with the applicable Board-selected replacement rate after June 30, 2023.

RETAIL RISK INDICATORS

(20/07/2022) ESMA - ESMA proposes key risk indicators for retail investors

The European Securities and Market Authority (ESMA) has published an article on the development of key retail risk indicators (RRIs) for the EU single market. The proposed RRIs highlight risks around: i) inexperienced investors; ii) use of digital tools by younger investors; and iii) spikes in overall trading during periods of market stress.

LARGE EXPOSURES REGIME

(22/07/2022) EBA - EBA analyses the use of specific exemptions included in the large exposures regime

The European Banking Authority (EBA) has published a Report on the use of some exemptions included in the large exposures regime. The Report analyses banks' use of the various exemptions from different perspectives and quantifies the impact of a potential removal of individual exemptions. Overall, the Report shows that some of the assessed exemptions are widely used across the EU and their removal would have a material impact.

OTC DERIVATIVES

(26/07/2022) ESMA - List of third-country markets considered as equivalent to a regulated market in the Union for the purposes of the definition of OTC derivatives

The European Securities and Markets Authority (ESMA) has published a list of third-country markets considered as equivalent to a regulated market in the Union for the purposes of the definition of OTC derivatives. The markets established in a third country have been considered as equivalent to a regulated market in the Union in accordance with Article 2a of Regulation on OTC derivatives, central counterparties and trade repositories (EMIR).

SECURITISATIONS

(28/07/2022) EBA - EBA consults on its draft technical standards on homogeneity of underlying exposures in simple, transparent and standardised securitisations

The European Banking Authority (EBA) has launched a public consultation on draft Regulatory Technical Standards (RTS) specifying the criteria for the underlying exposures in securitisation to be deemed homogeneous. Such specification is part of the requirements under the Securitisation Regulation and as amended by the Capital Markets Recovery Package (CMRP). The consultation runs until 28 October 2022.

High-risk investments

(01/08/2022) FCA – Strengthening our financial promotion rules for high-risk investments and firms approving financial promotions

The Financial Conduct Authority (FCA) has published a Policy Statement (PS) that summarizes the feedback received on Consultation Paper 22/2 on strengthening the financial promotion rules for high risk investments, including cryptoassets. The PS also sets the final rules designed to strengthen the regime for how high-risk investments (HRIs) can be promoted.

Consumer protection

(03/08/2022) FCA - PS22/11: Improving the Appointed Representatives regime

The Financial Conduct Authority (FCA) has set out the final rules for the Appointed Representative (AR) regime to enhance consumer protection and help protect markets. They also respond to feedback to the Consultation Paper (CP) 21/34. AR regime is set in primary legislation and allows self-employed representatives to engage in regulated activities without having to be authorised. Considering the feedback received, the FCA has made some changes in the final rules. Finally, the FCA is introducing a 4 month implementation period before the changes take effect, so these will come into force on 8 December 2022.

Benchmarks regulation

(12/08/2022) ECB - ESMA's response to the Commission's consultation on the BMR review

The European Securities and Markets Authority (ESMA) has published its response to the Commission's Consultation on the Benchmarks Regulation (BMR) review. The Consultation covers the topics of the continued use by supervised entities of Third Country benchmarks and the potential shortcomings of the current framework. ESMA agreed somewhat or completely with the majority of questions raised in the Consultation Paper. However, ESMA disagrees somewhat with the affirmation on that EU benchmark labels should not be accessible to third country administrators, and only be accessible to administrators supervised in the EU and subject to the BMR. Similarly, does not believe that users should be required to be tasked with the responsibility of verifying that benchmarks are compliant with the BMR.

Risk report

(12/09/2022) ESAs – ESAs warn of rising risks amid a deteriorating economic outlook

The European Supervisory Authorities (ESAs) have issued their Autumn 2022 joint risk report. The report highlights that the deteriorating economic outlook, high inflation and rising energy prices have increased vulnerabilities across the financial sectors. The ESAs advises national competent authorities, financial institutions and market participants to take the following policy actions: i) continue to be prepared for a deterioration in asset quality in the financial sector; ii) closely monitor the impact of inflation risks; iii) continue to carefully manage environmental risks and cyber risks to address threats to information security and business continuity.

• SUSTAINABILITY

Climate change

(04/07/2022) ECB -ECB takes further steps to incorporate climate change into its monetary policy operations

The Governing Council of the European Central Bank (ECB) has decided to take further steps to include climate change considerations in the Eurosystem's monetary policy framework. It decided to adjust corporate bond holdings in the Eurosystem's monetary policy portfolios and its collateral framework, to introduce climate-related disclosure requirements and to enhance its risk management practices, in order to take into account climate-related financial risks in the Eurosystem balance sheet and support the green transition of the economy in line with the EU's climate neutrality objectives.

Climate action plans

(07/07/2022) UNEP-FI -Investor agenda releases new guidance for investor climate action plans

The Founding Partners of The Investor Agenda have released new guidance to enable investors around the world to step up action to tackle the climate crisis and accelerate the transition to a net-zero economy. The document highlights best practices for investors in developing and publishing ambitious climate action plans. It also helps investors understand the main actions they can take to strengthen their approach, communicate this information to colleagues, and navigate a growing number of climate-related investor initiatives.

Other publications of interest

Others

Climate risks

(14/07/2022) FSB - FSB Roadmap for Addressing Financial Risks from Climate Change: 2022 progress report

The report summaries the progress made so far and the key areas for future work in all four blocks of the roadmap defined in July 2021 to address the financial risks arising from climate change: i) firm-level disclosure; ii) data; iii) vulnerabilities analysis; iv) regulatory and supervisoy practices and tools. This is the first report that the FSB will publish on an annual basis to facilitate the monitoring of progress in the implementation of the roadmap.

. Customer's sustaibaniility preferences

(20/07/2022) EIOPA – EIOPA publishes guidance on integrating the customer's sustainability preferences in the suitability assessment under the IDD

The European Insurance and Occupational Pensions Authority (EIOPA) published today its guidance on integrating the customer's sustainability preferences in the suitability assessment under the Insurance Distribution Directive (IDD). The Guidance is based on Commission Delegated Regulation (EU) 2021/1257 and aims at easing the implementation of this Regulation by national competent authorities (NCAs) as well as by insurance undertakings and insurance intermediaries providing advice on insurance-based investment products (IBIPs).

Climate risks report

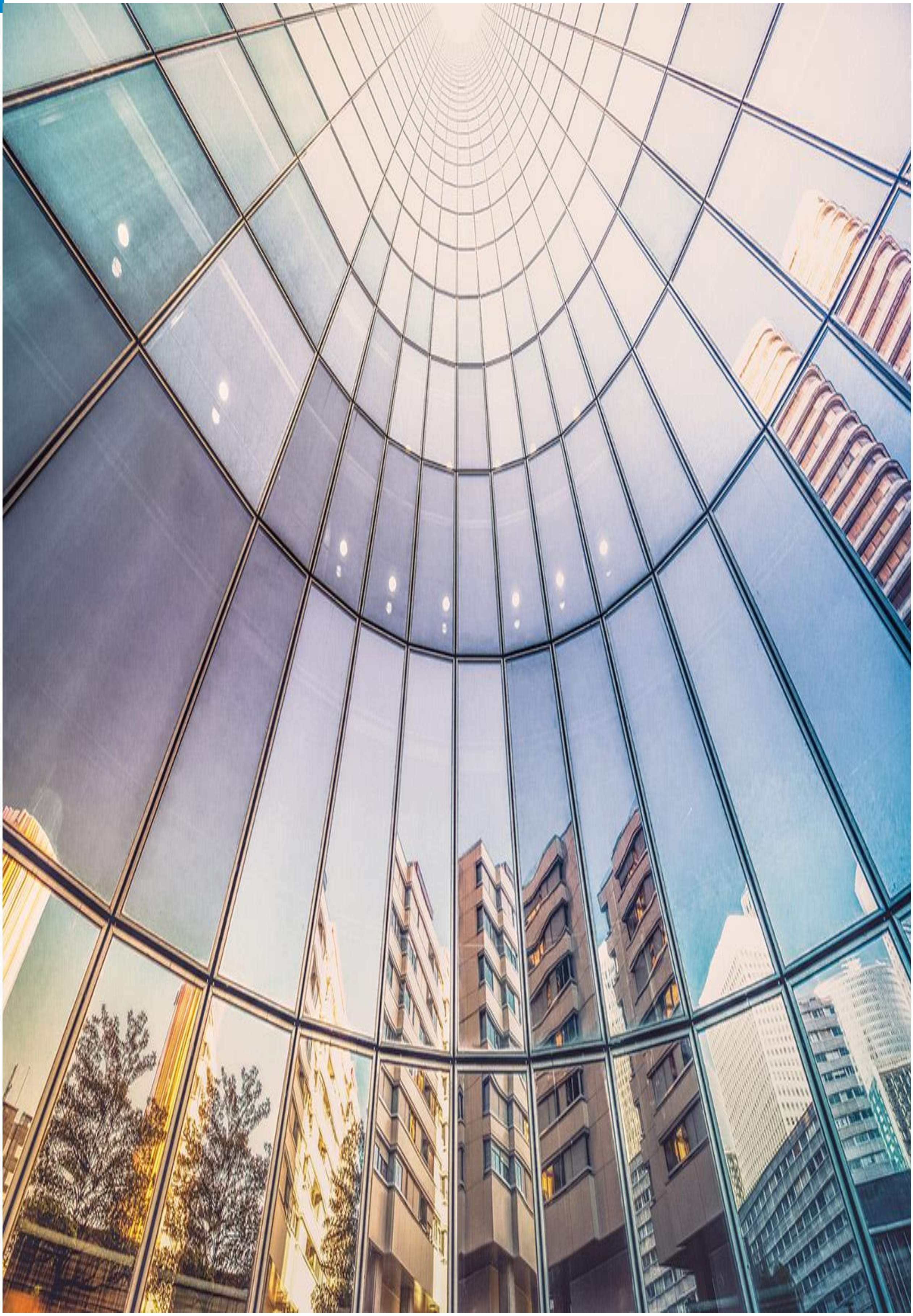
(26/07/2022) ECB - Climate shocks can put financial stability at risk, ECB/ESRB report shows

The European Central Bank (ECB) and the European Systemic Risk Board (ESRB) have published a joint report on how climate shocks can affect the European financial system. The findings show that climate risks can quickly spread and harm companies and banks alike. The report adds further evidence on the systemic nature of climate risks and provides a foundation for a macroprudential policy response. It also identifies several amplifiers of climate risk across the financial system.

NGFS scenarios

(12/09/2022) EIOPA – NGFS Scenarios for central banks and supervisors

The Network for Greening the Financial System (NGFS) has published the Phase III of its scenarios which bring up-to-date with new economic and climate data, as well as policy commitments. In particular, scenarios reflect the new country-level commitments to reach net-zero emissions made at COP26 in November 2021. The new scenarios also reflect the latest trends in renewable energy technologies (e.g. solar and wind), and key mitigation technologies. However, the current data do not yet account for the war in Ukraine as the situation and its long term consequences are still unclear and therefore difficult to model.



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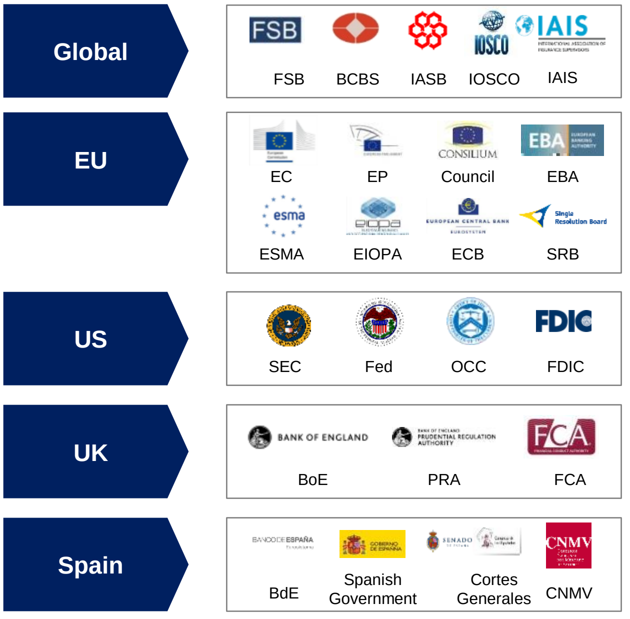
Regulators



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