



# THE FINANCIAL SERVICES **INSIDER**

Risk & Regulatory Insights

Regulatory updates

July 2023





# Highlights

The 2nd quarter of 2023 was marked by several regulatory developments in various areas such as AML, ESG, Fintech, Risk Management, Insurance and Capital Markets.

## Anti-Money Laundering (AML)

EBA launched a public consultation on amendments to its guidelines on ML/TF risk factors and published a report on ML/TF risks associated with EU payment institutions.

## Capital Markets

ECB published the March 2023 SESFOD and TARGET Annual Report 2022, while FSB published a statement to encourage final preparations for the USD LIBOR transition. Also, IOSCO encourages regulators, responsible entities and trading venues to review and adopt good practices for ETFs. Moreover, ESMA published i) an opinion regarding legislative amendments to prevent undue costs in funds, ii) a consultation on rules for long term investment funds and iii) an opinion on Market Outages.

Furthermore, EBA published:

- a consultation on guidance to assess knowledge and experience of the management or administrative organ of a credit servicer;
- a consultation on the draft Guidelines on the STS criteria for on-balance-sheet securitisations;
- updated list of institutions involved in the 2023 supervisory benchmarking exercise.

## Environmental, Social and Governance (ESG)

EC i) updated guidance for measures to support the green transition, ii) took further steps to boost investment for a sustainable future and iii) proposed an annual EU budget of €189.3 billion for 2024. Also, FSB published a report which reviews compensation practices around climate-related objectives while Eurostat published a report which shows EU's progress on Sustainable Development Goals.

Furthermore, ESAs proposed amendments to extend and simplify sustainability disclosures and ESG disclosures for STS securitisations. Moreover, ECB published i) its third assessment of the progress European banks have made in disclosing climate and environmental risks and ii) an article regarding climate change and sovereign risk.

## FinTech

European Parliament endorsed the first EU rules for tracing transfers in the EU while ECB published progress report on digital euro and study on possible features of a digital wallet. Also, EC welcomed the new tax transparency rules which will help Member States shine a light on the crypto-asset sector.



# Highlights

Furthermore, BIS published a guide on offline CBDC use and a paper regarding privacy regulation and fintech lending.

## Insurance

ECB and EIOPA published a joint discussion paper on how to better insure households and businesses in the EU against climate-related natural catastrophes. EIOPA published i) its risk dashboard which shows macro and market risks as top concern for insurers and ii) its June 2023 Financial Stability Report. Furthermore, Insurance Europe published i) its 2022–2023 Annual Report and ii) a joint statement stating that EU Data Act provisions on business-to-government data sharing are too imprecise.

## Risk Management

ECB published a consultation on counterparty credit risk governance and management and an article regarding the financial stability risks of investment funds active in euro area CRE markets. Also, ECB and SRB welcomed EC's legislative proposals for bank crisis management and deposit insurance framework while FSB launched a consultation on toolkit for enhancing third-party risk management and oversight.

Furthermore, EBA published:

- its quarterly risk dashboard;
- an opinion on the definition of a large decline of net interest income in relation to the interest

rate risk in the banking book;

- results on impact and calibration of standardised approaches for counterparty risk;
- final draft technical standards specifying the data collection for the benchmarking exercise in 2024;
- updated list of risk indicators and analysis tools;
- a report on the LCR and NSFR implementation in the EU in the context of the new economic environment and TLTRO repayment;
- updated list of correlated currencies;
- its annual report.

Moreover, ESMA i) published its report on the EU Credit Ratings market, ii) launched fifth stress test exercise for central counterparties, iii) published guidelines on templates for summary resolution plans and for written arrangements for resolution colleges and iv) highlighted risks arising from investment firms providing unregulated products and services.

## Other

ESMA published its annual report for 2022 & its Data Strategy for 2023-2028 and postponed to 2024 the annual IFRS amendment of the ESE. Furthermore, i) EIOPA and BIS published their annual reports, ii) IOSCO published its work program for 2023-2024, and iii) EBA adopted a charter on diversity and inclusion.

# Anti-Money Laundering (AML)



**EBA launched a public consultation on amendments to its guidelines on ML/TF risk factors**

**EBA consults on amendments to the Guidelines on ML/TF risk factors to include crypto-asset service providers.**

On May 31, 2023 the European Banking Authority (EBA) launched a public consultation on amendments to its Guidelines on money laundering and terrorist financing (ML/TF) risk factors. The proposed changes extend the scope of these Guidelines to crypto-asset service providers (CASPs). The consultation runs until 31 August 2023.

**EBA finds that ML/TF risks in payments institutions are not managed effectively.**

On June 16, 2023 the European Banking Authority (EBA) published its Report on money laundering and terrorist financing (ML/TF) risks associated with EU payment institutions. Its findings suggest that ML/TF risks in the sector may not be assessed and managed effectively by institutions and their supervisors. Failure to manage ML/TF risks in the payment institutions sector can impact the integrity of the EU's financial system. The EBA's work on access to financial services further suggests that failure to address those risks will also undermine efforts to improve access by payment institutions to payment accounts.





## EBA published updated list of institutions involved in the 2023 supervisory benchmarking exercise.

### Results of the March 2023 SESFOD.

On April 12, 2023 the European Central Bank (ECB) published the March 2023 Survey on credit terms and conditions in euro-denominated securities financing and over-the-counter (OTC) derivatives markets (SESFOD). According to the survey:

- Credit terms and conditions tightened for all counterparty types over December 2022 to February 2023 review period and year to March;
- Maximum amount and maximum maturity of funding offered against euro-denominated government bonds increased over review period;
- Initial margin requirements for most non-centrally cleared over-the-counter derivatives increased over review period.

### EBA consults on guidance to assess knowledge and experience of the management or administrative organ of a credit servicer.

On April 19, 2023 the European Banking Authority (EBA) launched a public consultation on its draft Guidelines on the assessment of adequate knowledge and experience of the management or administrative organ of credit servicers, as a whole, under the Non-Performing Loans Directive. The Guidelines aim at ensuring that the organs are suitable to conduct the business of the credit servicer in a competent and responsible manner.

### EBA consults on the draft Guidelines on the STS criteria for on-balance-sheet securitisations.

On April 21, 2023 the European Banking Authority (EBA) launched a public consultation on its draft Guidelines on the criteria related to simplicity, standardisation and transparency and additional specific criteria for on-balance-sheet securitisations (so-called STS criteria). These Guidelines will ensure a harmonised interpretation of these STS criteria, in alignment with the EBA Guidelines for traditional securitisations.

### EBA updated list of institutions involved in the 2023 supervisory benchmarking exercise.

On April 21, 2023 the European Banking Authority (EBA) published an updated list of institutions, which have a reporting obligation for the purpose of the 2023 EU supervisory benchmarking exercise. The EBA will be conducting the 2023 benchmarking exercise on a sample of 117 institutions from 16 countries across the EU and the European Economic Area. The EBA runs this exercise leveraging on established data collection procedures and formats of regular supervisory reporting and assists Competent Authorities in assessing the quality of internal approaches used to calculate risk weighted exposure amounts.

### FSB Statement to encourage final preparations for the USD LIBOR transition.

On April 27, 2023 the Financial Stability Board (FSB) published a statement to encourage final preparations for the USD LIBOR transition. The statement highlights the following:

- There has been significant progress so far, and important work needs to be done to complete the USD LIBOR transition globally.
- The UK FCA, has announced that it will require continued publication of the 1-, 3- and 6-month USD LIBOR settings following the end of the USD LIBOR panel, using a robust, unrepresentative synthetic methodology based on the CME Term SOFR Reference Rate and the ISDA fixed spread adjustment.
- The FSB reminds market participants that they should not rely on the availability of synthetic LIBOR rates in place of active transition of legacy contracts.
- For synthetic sterling LIBOR, the FCA has announced its intention that the remaining 3-month setting will cease at end-March 2024.
- Firms should continue to transition activity to robust reference rates, including the Secured Overnight Financing Rate for the USD, to support a sustainable transition and to promote financial stability.
- It is essential that the transition is anchored in risk-free reference rates that are robust and underpinned by deep, credible and liquid markets to avoid the vulnerabilities experienced with LIBOR.



## IOSCO Encourages Regulators, Responsible Entities and Trading Venues to Review and Adopt Good Practices for ETFs.

On May 12, 2023 the International Organization of Securities Commissions (IOSCO) published Good Practices Relating to the Implementation of the IOSCO Principles for Exchange Traded Funds. The good practices can be broadly categorised under four themes that encompass the full life cycle of ETF products:

- Product structuring (including range of assets, strategies for ETF offerings, effective arbitrage mechanisms).
- Disclosure requirements (including on fees and on clear differentiation of ETFs from other Exchange Traded Products and CIS).
- Liquidity provisions (including market monitoring and ensuring orderly trading).
- Volatility control mechanisms (including communication between trading venues).

## ESMA calls for legislative amendments to prevent undue costs in funds.

On May 17, 2023 the European Securities and Markets Authority (ESMA) published an Opinion to the European Commission with suggested clarifications of the legislative provisions under the UCITS Directive and the Alternative Investment Fund Managers Directive relating to the notion of “undue costs”. The Opinion follows a Common Supervisory Action on the supervision of costs and fees of UCITS across the EU/EEA which ESMA launched in January 2021.

The European Commission is working on policy proposals in the context of the Retail Investment Strategy (RIS) to empower retail investors and enhance their participation in the capital markets. ESMA welcomes the Commission’s initiative and is confident that the Opinion can be taken into consideration in the upcoming Commission’s legislative proposals on the RIS.

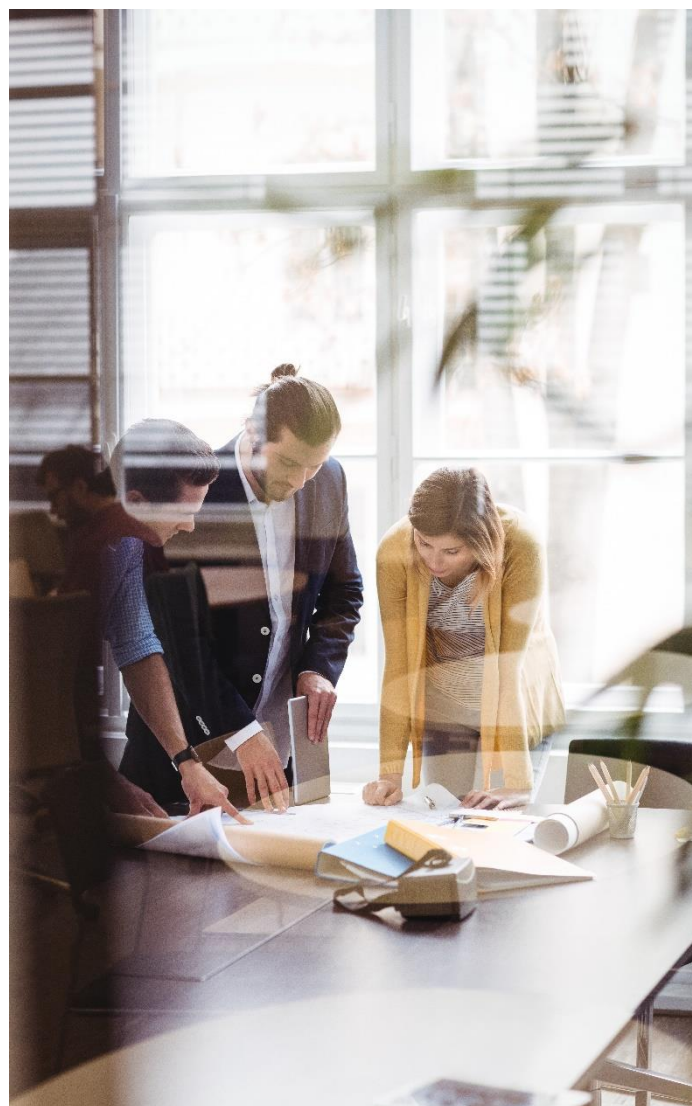
## ESMA seeks input on rules for long term investment funds.

On May 23, 2023 the European Securities and Markets Authority (ESMA) launched a consultation on draft regulatory technical standards (RTS) under the revised ELTIF Regulation. Interested stakeholders are invited to provide input by 24 August 2023.

The RTS will specify the way the new requirements of the revised ELTIF regulation, in particular on the redemption policy and matching mechanism, will apply.

In the consultation paper ESMA is seeking stakeholders’ views on:

- the circumstances in which the life of a European long-term investment fund (“ELTIF”) is considered compatible with the life-cycles of each of the individual assets, as well as different features of the redemption policy of the ELTIF;
- the circumstances for the use of the matching mechanism, i.e. the possibility of full or partial matching (before the end of the life of the ELTIF) of transfer requests of units or shares of the ELTIF by exiting ELTIF investors with transfer requests by potential investors;
- the costs disclosure.





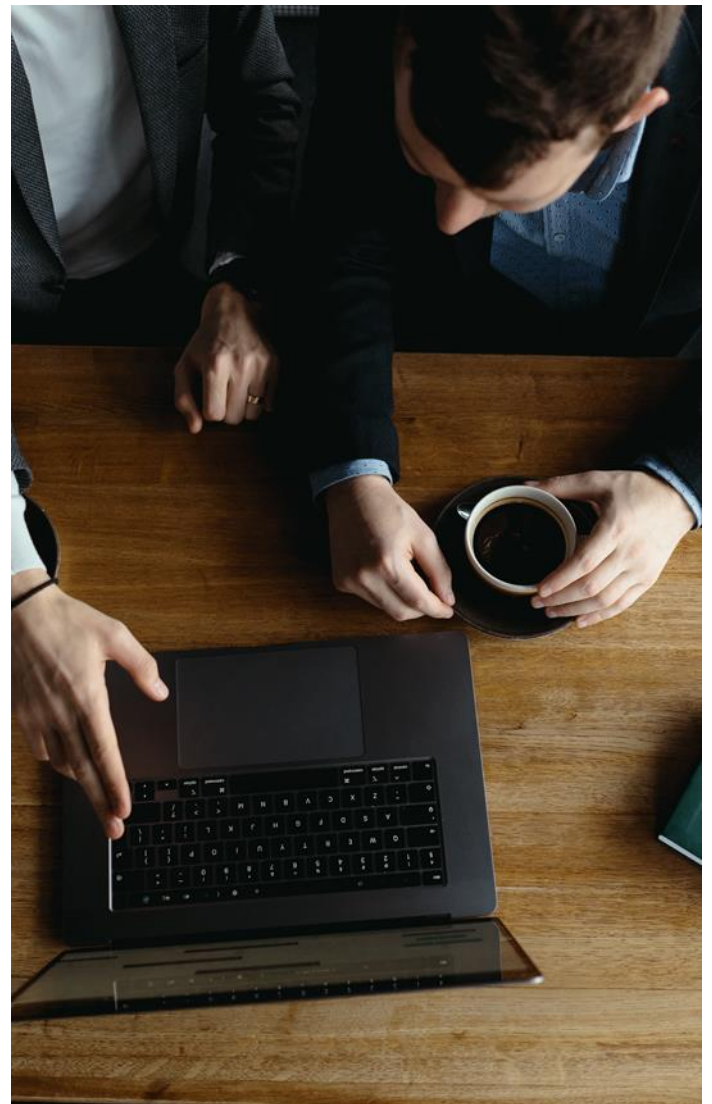
## ESMA published Opinion on Market Outages.

On May 24, 2023 the European Securities and Markets Authority (ESMA) published its final report including an Opinion on market outages, highlighting the importance for trading venues of having an appropriate outage plan to communicate to their members, participants, and the public. In the Opinion, ESMA also sets out steps trading venues should take to reopen trading in an orderly manner.

ESMA provides in this format its expectations of how National Competent Authorities (NCA) should ensure that trading venues have appropriate communication protocols in place, which arrangements should be in place to avoid an outage affecting the closing auction and how trading venues should ensure the market is provided with an official closing price. In addition, the Opinion also provides considerations on non-equity instruments, in particular for derivatives markets.

## TARGET Annual Report 2022.

On June 16, 2023 the European Central Bank (ECB) published the “Trans-European Automated Realtime Gross settlement Express Transfer system” (TARGET) annual report 2022. The report provides information on TARGET2 traffic, its performance and the main developments that took place in 2022. In addition to the core content, this report includes seven boxes on topics of particular relevance in 2022. The boxes focus, respectively, on the evolution of turnover and volume in TARGET2; TIPS volume development and functional evolution; the impact of Russia’s invasion of Ukraine on TARGET2; the impact of the ECB’s monetary policy decisions on the money market rates derived from TARGET2; enhancements to the TARGET services communication tools; TARGET2 analytics for regulatory compliance; and an update on the TARGET2/T2S consolidation project and future RTGS services.



# Environmental, Social and Governance (ESG)



**ECB published its third assessment of the progress European banks have made in disclosing climate and environmental risks.**

## State aid: EC updates guidance for measures to support the green transition.

On April 04, 2023 the European Commission (EC) published updated State aid guiding templates to assist Member States in designing measures, which will be included in their national Recovery and Resilience Plans (“RRPs”), in line with EU State aid rules. In particular, the updated technical documents will help Member States design measures that further contribute to the implementation of the European Green Deal, while helping to end the dependence on Russian fossil fuels and fast forward the green transition as set out in the REPowerEU Plan.

## ESAs propose amendments to extend and simplify sustainability disclosures.

On April 12, 2023 the three European Supervisory Authorities (EBA, EIOPA and ESMA – ESAs) published a Consultation Paper with amendments to the Delegated Regulation of the Sustainable Finance Disclosure Regulation (SFDR).

The ESAs are proposing changes to the disclosure framework to address issues that have emerged since the introduction of SFDR. The authorities seek feedback on the amendments that envisage:

- extending the list of universal social indicators for the disclosure of the principal adverse impacts of investment decisions on the environment and society, such as earnings from non-cooperative tax jurisdictions or interference in the formation of trade unions;
- refining the content of other indicators for adverse impacts and their respective definitions, applicable methodologies, formulae for calculation as well as the presentation of the share of information derived directly from investee companies, sovereigns, supnationals or real estate assets; and
- adding product disclosures regarding decarbonisation targets, including intermediate targets, the level of ambition and how the target will be achieved.

Moreover, the ESAs propose further technical revisions to the SFDR Delegated Regulation by:

- improving the disclosures on how sustainable investments “do not significantly harm” the environment and society;
- simplifying pre-contractual and periodic disclosure templates for financial products; and
- making other technical adjustments concerning, among others, the treatment of derivatives, the definition of equivalent information, and provisions for financial products with underlying investment options.

## FSB: Climate-related Financial Risk Factors in Compensation Frameworks.

On April 20, 2023 the Financial Stability Board (FSB) published a report which reviews compensation practices around climate-related objectives. Climate-related financial risk factors in compensation frameworks are still an emerging theme. Therefore, the report does not aim to present and compare practices across jurisdictions, but rather to identify challenges and to provide an early insight in a fast-moving field to assist ongoing initiatives of regulators and financial institutions.

Common challenges include:

- gaps in data availability and reliability that make it difficult to apply consistent metrics and monitor them in performance evaluation and compensation determination;
- development of objectively measurable metrics that are aligned with financial institutions’ strategies;
- misalignment of timeframes between compensation assessment periods and the materialisation of climate-related results.

Incorporation of climate-related metrics into compensation frameworks is expected to evolve further. Continuous revision and adaptation of metrics by financial institutions, in response to a fast-changing environment, is needed to ensure effective alignment of compensation with prudent risk taking. Financial regulators can facilitate this process by helping share regulatory and industry practices with each other and with industry.



# Environmental, Social and Governance (ESG)



## ECB: Banks must continue improving climate risk disclosures as new EU rules take effect.

On April 21, 2023 the European Central Bank (ECB) published its third assessment of the progress European banks have made in disclosing climate and environmental risks. The outcome of this exercise shows that:

- Most banks have expanded their climate and environmental disclosures, but quality of information remains too low;
- ECB expects banks to continue addressing shortcomings and gives examples of good practices;
- ECB analysis carried out before new supervisory standards take effect this year;
- Non-compliance with new standards will constitute breach of EU law and trigger supervisory action.

## Eurostat report shows EU's progress on Sustainable Development Goals.

On May 24, 2023 Eurostat published the “Sustainable development in the European Union — monitoring report on progress towards the SDGs in an EU context, 2023 edition”, which provides a statistical overview of progress towards the Sustainable Development Goals (SDGs) in the EU. The report shows that the EU has made progress towards most goals over the last five years, in line with Commission's priorities in key policy areas such as the European Green Deal, the 8th Environment Action Programme and the European Pillar of Social Rights Action Plan. The data show the EU has progressed strongly towards many socio-economic goals, while more progress is expected in the environmental domain as Member States implement the ambitious targets of the European Green Deal.

For the first time, the report analysed the short-term impact of current crises on the SDGs. This includes the energy crisis in the context of Russia's war against Ukraine and the aftershocks of the pandemic. The report also features a chapter with an improved analysis of the spillover effects of EU consumption on the rest of the world.

## ESAs propose ESG disclosures for STS securitisations.

On May 25, 2023 the three European Supervisory Authorities (EBA, EIOPA and ESMA – ESAs) jointly submitted to the European Commission Draft Regulatory Technical Standards (RTS) on the ESG impact disclosure for Simple, Transparent and Standardised (STS) securitisations under the

Securitisation Regulation (SECR). These final draft RTS aim to help market participants make informed decisions about the sustainability impact of their investments.

## ECB: Climate change and sovereign risk.

On May 31, 2023 the European Central Bank (ECB) published an article regarding climate change and sovereign risk. According to the article, climate change can have a negative effect on sovereign balance sheets directly (when contingent liabilities materialise) and indirectly (when it has an impact on the real economy and the financial system). This special feature highlights the contingent sovereign risks that stem from an untimely or disorderly transition to a net-zero economy and from more frequent and severe natural catastrophes. It also looks at the positive role that governments can play in reducing climate-related financial risks and incentivising adaptation. If the recent trend of ever-lower emissions across the EU is to be sustained, further public sector investment is essential. In this context, the progress made to strengthen green capital markets has fostered government issuance of green and sustainable bonds to finance the transition. While putting significant resources into adaptation projects can increase countries' resilience to climate change, the economic costs of extreme climate-related events are still set to rise materially in the EU. Only a quarter of disaster losses are currently insured and fiscal support has mitigated related macroeconomic and financial stability risks in the past. Looking ahead, vulnerabilities arising from contingent liabilities may increase in countries with high physical risk and a large insurance protection gap. If these risks rise alongside sovereign debt sustainability concerns, the impact on financial stability could be amplified by feedback loops that see sovereign credit conditions and ratings deteriorate.

# Environmental, Social and Governance (ESG)



## EU budget 2024: Enabling Europe to address its priorities.

On June 07, 2023 the European Commission (EC) proposed an annual EU budget of €189.3 billion for 2024. The budget will be complemented by an estimated €113 billion in payments for grants under NextGenerationEU. Their combined firepower will keep driving Europe's ongoing economic recovery and create jobs, while strengthening Europe's strategic autonomy. The draft budget 2024 directs funds to where they can make the greatest difference, in line with the most crucial recovery needs of the EU Member States. The funding will help modernise and strengthen EU, by fostering the green and digital transitions, creating jobs and strengthening Europe's role in the world.

## Sustainable Finance: EC takes further steps to boost investment for a sustainable future.

On June 13, 2023 the European Commission (EC) put forward a new package of measures to build on and strengthen the foundations of the EU sustainable finance framework. The aim of the package is to ensure that the EU sustainable finance framework continues to support companies and the financial sector, while encouraging the private funding of transition projects and technologies. Specifically, the EC is adding additional activities to the EU Taxonomy and proposing new rules for Environmental, Social and Governance (ESG) rating providers, which will increase transparency on the market for sustainable investments. The package aims to ensure that the sustainable finance framework works for companies that want to invest in their transition to sustainability. It aims also to make the sustainable finance framework easier to use, thereby continuing to contribute effectively to the European Green Deal objectives.





## ECB published progress report on digital euro and study on possible features of a digital wallet.

### Crypto-assets: green light to new rules for tracing transfers in the EU.

On April 20, 2023 the European Parliament endorsed the first EU rules to trace crypto-asset transfers, prevent money laundering, as well as common rules on supervision and customer protection. The rules aim to ensure that crypto transfers, as is the case with any other financial operation, can always be traced and suspicious transactions blocked. The so-called “travel rule”, already used in traditional finance, will in future cover transfers of crypto assets. Information on the source of the asset and its beneficiary will have to “travel” with the transaction and be stored on both sides of the transfer.

### ECB published progress report on digital euro and study on possible features of a digital wallet.

On April 24, 2023 the European Central Bank (ECB) published the third progress report on the digital euro, as well as the findings of focus groups commissioned by the ECB concerning people’s views on the features of a potential digital wallet. According to the report:

- Digital euro potentially available initially to euro area residents, merchants and governments;
- Digital euro could be made available via existing banking apps and Eurosystem app;
- Offline and person-to-person payments across euro area seen as highly valued.

### BIS Innovation Hub published guide on offline CBDC use.

On May 11, 2023 the Bank for International Settlements (BIS) published a handbook which provides a comprehensive overview of the key aspects of offline payments with Central Bank Digital Currencies (CBDC) and is intended to serve as a guide for central banks considering implementing offline payments capabilities. The handbook provides some of the main reasons and usage scenarios for offline payments; a map and an explanation of the technology components based on available solutions on the market; and a set of design criteria for risk management, privacy, inclusion and resilience.

It also provides a set of considerations that central banks can use to inform their planning, policy development, technology and business requirements, procurement activities and future operations.

### New tax transparency rules will help Member States shine a light on the crypto-asset sector.

On May 16, 2023 the European Commission (EC) welcomed the political agreement reached by EU Finance Ministers on new tax transparency rules for all service providers facilitating transactions in crypto-assets for customers resident in the EU. Based on a EC proposal, the new rules complement the Markets in Crypto-assets (MiCA) Regulation and transfer in funds Regulation (TFR), and are fully consistent with the OECD initiative on the Crypto-Asset Reporting Framework. The new reporting requirements on crypto-assets, e-money and central bank digital currencies will enter into force on 1 January 2026.

### BIS: Privacy regulation and fintech lending.

On June 02, 2023 the Bank for International Settlements (BIS) published a paper regarding privacy regulation and fintech lending. The paper focuses on the effects of the California Consumer Privacy Act (CCPA) on bank and fintech lending in the US mortgage market. According to the paper, loan applications to fintechs increase by significantly more than those to traditional banks, leading to an increase in fintechs' market share by up to 19%. This increase can be attributed to applicants' increased willingness to share their data. Fintechs, taking advantage of this data, expand their utilisation of information beyond traditional credit scores during the application process. Consequently, they engage in more personalised pricing and reject a larger proportion of applications. These findings suggest that fintechs enhance their screening process, leading to an improvement in the quality of their average borrower. As a result, fintechs are able to offer significantly lower loan rates than banks can following the CCPA's implementation. In sum, the CCPA has benefited consumers by providing fintech lenders, equipped with advanced screening technology, with improved access to data.



**Insurance Europe published a joint statement stating that EU Data Act provisions on business-to-government data sharing are too imprecise. Also, EIOPA published its June 2023 Financial Stability Report.**

## ECB and EIOPA call for increased uptake of climate catastrophe insurance.

On April 24, 2023 the European Central Bank (ECB) and the European Insurance and Occupational Pensions Authority (EIOPA) published a joint discussion paper on how to better insure households and businesses in the European Union against climate-related natural catastrophes such as floods or wildfires. The policy options set out in the paper are aimed at boosting the uptake and efficiency of climate catastrophe insurance while creating incentives to adapt to and reduce climate risks.

## EIOPA: Risk Dashboard shows macro and market risks as top concern for insurers.

On May 15, 2023 the European Insurance and Occupational Pensions Authority (EIOPA) published its Risk Dashboard based on Q4 2022 Solvency II data. The analysis shows that insurers' exposures to macro and market risks are currently the main concern for the insurance sector, while all other risk categories are at medium levels.

## Insurance Europe: EU Data Act provisions on business-to-government data sharing are too imprecise.

On May 24, 2023 Insurance Europe published a joint statement with a broad group of EU business associations, stating that any mandatory data sharing between private companies and governments needs clear and transparent conditions for all parties.

While willing to support efforts to tackle public emergencies, the signatories are critical of Chapter V of the EU Data Act proposal, which obliges companies to make data available to public bodies in cases of "exceptional need". The imprecise wording would mean that any EU, national, regional or local public body could request any type of data, including personal data, from any data holder.

The signatories encourage the Council of the EU and the European Parliament to build a clear and proportionate framework that does not allow unrestricted access to any data, but will protect the fundamental rights of individuals and the rule of law.

## Insurance Europe's 2022–2023 Annual Report.

On May 30, 2023 Insurance Europe published its 2022–2023 Annual Report which is setting out the European insurance industry's positions on the main insurance issues of the day. It covers ways to advance sustainability and inclusivity, improve financial regulation, serve consumers better, support digitalisation and ensure greater protection for societies and economies.

## EIOPA: European insurers and pension funds hold up well despite elevated financial stability risks.

On June 22, 2023 the European Insurance and Occupational Pensions Authority (EIOPA) published its June 2023 Financial Stability Report which takes stock of the key developments and risks in the European insurance and occupational pensions sectors. EIOPA notes that the European economy is currently experiencing a new period of high uncertainty and elevated financial stability risk. Persistent inflation, the fraught geopolitical landscape and rising financing costs – also in the wake of the recent financial turmoil – pose challenges to growth prospects in Europe and the business conditions of financial institutions. Despite the challenging environment, insurers and pension funds have remained resilient.



EBA published its annual report.

## Ratings & Credit Risk

**EBA: Robust EU/EEA banking sector shows strong capital and liquidity ratios.**

On April 04, 2023 the European Banking Authority (EBA) published its quarterly Risk Dashboard (RDB) together with the first edition of the RDB on minimum requirement for own funds and eligible liabilities (MREL). Volatility in EU/EEA banks' equity and debt has been strongly affected by Silicon Valley Bank (SVB) and Credit Suisse related events, although direct exposures of EU/EEA banks towards these banks were limited according to indications from supervisory reporting as of Q4 2022. Banks' capital and liquidity ratios remain strong and profitability continues to increase.

**ESMA: Over 140,000 EEA issuers and instruments rated by CRAs.**

On April 25, 2023 the European Securities and Markets Authority (ESMA) published its report on the European Union (EU) Credit Ratings market, providing for the first time a cross-market view of credit ratings reported to the EU. ESMA finds that there were 823,400 credit ratings at the end of 2022. These ratings were mostly for US-issued debt or issuers (69%), with 17% (141,600 credit ratings) on EEA30 instruments and issuers.

The main findings included in the report are:

- **Size:** Of the 141,600 credit ratings for EEA30 instruments and issuers at the end of 2022, most were corporate ratings (79%), followed by sovereigns (12%) and structured finance ratings (9%).
- **Composition:** Over 90% of ratings for EEA debt and issuers had long-term horizons (a year or more), most are ratings of instruments (70%) rather than of issuers, and most were solicited by the debt issuer (73%). The largest three CRAs had issued most outstanding ratings (69%), including almost all of the ratings solicited by a debt issuer (92%).
- **Credit risk trends:** The COVID-19 pandemic was the most visible driver of events over the reporting period. Early in 2020 there was a marked increase in rating downgrades across asset classes,

particularly for non-financial corporates and commercial mortgage-backed securities. These reflected the pressures faced in certain business sectors from the lockdowns and the associated economic uncertainties. In contrast, in late 2020 and in 2021 there was an improvement in credit risk indicators across asset classes, as government business support measures were introduced and took effect. In 2022, there were also the negative effects on credit quality of the Russian invasion of Ukraine and tightening monetary policy, though impacts here were much less pronounced and widespread than those of the pandemic.

**EBA updates on the definition of a large decline of net interest income in relation to the interest rate risk in the banking book.**

On April 26, 2023 the European Banking Authority (EBA) published an Opinion in response to the EU Commission's amendments relating to the draft Regulatory Technical Standards (RTS) on the supervisory outlier tests (SOT) specifying technical aspects of the revised framework on interest rate risks for banking book (IRRBB) positions. The EBA confirms its close scrutiny on the implementation of the IRRBB regulatory products and more generally on the impact of the evolving interest rates on the management of IRRBB by EU institutions and on other related prudential aspects.

**EBA published results on impact and calibration of standardised approaches for counterparty risk.**

On May 30, 2023 the European Banking Authority (EBA) published its Report on the impact and calibration of the Standardised Approach to Counterparty Credit Risk (SA-CCR), simplified SA-CCR and Original Exposure Method (OEM). The impact of setting alpha equal to 1 under SA-CCR for the purposes of the output floor (OF) on a permanent basis is also analysed.

**EBA Peer Review finds CVA risk is overall supervised sufficiently and recommends some follow-up measures to further strengthen supervision.**

On May 30, 2023 the European Banking Authority (EBA) published its Peer Review on excluding transactions with non-financial counterparties established in a third country from credit valuation adjustment (CVA) risk. The Review found that the competent authorities targeted in this review assessed CVA risk sufficiently although some



elements of such an assessment were missing. The EBA, therefore, has set out a series of follow-measures to address these deficiencies.

## ESMA launched Fifth Stress Test Exercise for Central Counterparties.

On May 30, 2023 the European Securities and Markets Authority (ESMA) launched its fifth Stress Test Exercise for Central Counterparties (CCPs) under the European Markets Infrastructure Regulation (EMIR). The CCP Stress Test framework is complemented by an adverse market scenario provided by the European Systemic Risk Board (ESRB). ESMA, in cooperation with the National Competent Authorities (NCAs) and the ESRB, developed the framework covering the following components:

- Credit Stress: assesses the sufficiency of CCPs' resources to absorb losses under a combination of market price shocks and member default scenarios;
- Concentration risk: assesses the impact of liquidation costs derived from concentrated positions;
- Liquidity Stress: assesses the sufficiency of CCPs' liquid resources under a combination of market price shocks, member/liquidity provider default scenarios and additional liquidity stress assumptions;
- Climate risk: assesses the degree to which the CCP's business model is affected by the transition to a carbon-neutral economy, the consequences of the transition on the collateral posted by clearing members, and explores the impact of physical risk on CCPs; and
- Reverse Stress: increases the severity of the contemplated scenarios and identifies breaking points of the eco-system for credit, concentration and liquidity risks.

## ECB launched consultation on counterparty credit risk governance and management.

On June 02, 2023 the European Central Bank (ECB) launched a public consultation on its report on "Sound practices in counterparty credit risk governance and management". The report summarises the results of the targeted review performed in the second half of 2022 on how banks govern and manage counterparty credit risk (CCR). It highlights the good practices observed in the market

and points to areas where improvement is needed.

## EBA published final draft technical standards specifying the data collection for the benchmarking exercise in 2024.

On June 05, 2023 the European Banking Authority (EBA) published its final draft Implementing Technical Standards (ITS) on the benchmarking of credit risk, market risk and IFRS9 models for the 2024 exercise. The most significant change, compared to the data collection of 2023, is the roll out for the benchmarking of accounting metrics (IFRS9) to high default portfolios (HDP). For market risk, new templates are added for the collection of additional information, notably the Default Risk Charge (DRC) and the Residual Risk Add-On (RRAO). For credit risk, only minor changes have been made.

## EBA updated list of risk indicators and analysis tools.

On June 14, 2023 the European Banking Authority (EBA) published an updated list of indicators for risk assessment and risk analysis tools, together with the accompanying methodological guide. Without adding any reporting burden neither on reporting institutions nor on competent authorities, this guidance describes how risk indicators are computed in EBA publications. It will allow competent authorities and users of EBA data to interpret key bank figures in a consistent fashion when conducting their risk assessments and analyses.

## EBA reports on the LCR and NSFR implementation in the EU in the context of the new economic environment and TLTRO repayment.

On June 15, 2023 the European Banking Authority (EBA) published its third Report on the monitoring of liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) implementation in the EU. This Report assesses the potential impact on LCR and NSFR levels of the upcoming central bank funding repayment (mainly repayments of the targeted longer-term refinancing operations - TLTRO) as well as of a potential scenario of higher liquidity risk, particularly affecting government bonds, derivatives and repo markets, in the context of a higher interest rate environment, inflation and recession risks.



## Recovery / Resolutions

ESMA published [Guidelines on templates for summary resolution plans and for written arrangements for resolution colleges](#).

On June 23, 2023 the European Securities and Markets Authority (ESMA) published two Final Reports including guidelines on the central counterparties (CCPs) Resolution Regime under the CCP Recovery and Resolution Regulation (CCPRRR). The [Guidelines on the template written arrangements](#) for resolution colleges will assist National Competent Authorities (NCAs) in the creation of the resolution colleges, and also ensure a smooth process to both establish and review the resolution college agreement. The [Guidelines on the template summary](#) resolution plans provide resolution authorities with guidance as to the type of information that should be included in the summary (and a template of the summary) that would be shared with the CCP.

## Other General aspects

ECB: [The growing role of investment funds in euro area real estate markets - risks and policy considerations](#).

On April 03, 2023 the European Central Bank (ECB) [published](#) an article regarding the financial stability risks of investment funds active in euro area commercial real estate (CRE) markets. According to the article, real estate investment funds (REIFs) have grown significantly in the past decade, and have a large market footprint in several euro area countries where the outlook for CRE markets has deteriorated sharply. In addition, REIFs are exposed to liquidity risk when they offer frequent redemptions, which could affect the stability of CRE markets. REIFs should therefore be subject to a common and comprehensive policy framework to reduce the liquidity mismatch and risks to financial stability.

ECB and SRB [welcome EC's legislative proposals for bank crisis management and deposit insurance framework](#).

On April 18, 2023 the European Central Bank (ECB) and the Single Resolution Board (SRB) [welcomed](#) the European Commission's proposed legislative changes to the European bank crisis management and deposit insurance framework. ECB and SRB are ready to provide technical input on proposals to ensure consistent and workable framework.

BCBS: [Principles for Sound Management of Operational Risk \(PSMOR\)](#).

On April 27, 2023 the Basel Committee on Banking Supervision (BCBS) [published](#) an executive summary regarding Principles for Sound Management of Operational Risk (PSMOR). The principles were introduced in 2003 and subsequently revised in 2011 to incorporate the lessons from the Great Financial Crisis. The 2021 revisions resulted from a 2014 review that indicated that several principles had not been adequately implemented and did not sufficiently capture certain important sources of operational risk.

Operational risk is inherent in all banking products, activities, processes and systems. Sound operational risk management reflects the effectiveness of the board of directors and senior management in administering their portfolio of products, activities, processes and systems.

The PSMOR and its regular updates aim to promote the effectiveness of operational risk management throughout the banking system. They reflect sound practices relevant to all banks. However, the BCBS recommends that banks should take account of the nature, size, complexity and risk profile of their activities when implementing the principles.

ESMA [highlights risks arising from investment firms providing unregulated products and services](#).

On May 25, 2023 the European Securities and Markets Authority (ESMA) [issued](#) a public statement to warn investors of risks that arise when investment firms offer both regulated and unregulated products and/or services. Retail investors often rely solely on the reputation of an investment firm which makes them susceptible to overlooking potential risks of the unregulated products and/or services offered by investment firms. ESMA's statement therefore aims to remind firms of the behaviours they are expected to adopt in such circumstances (e.g. disclosure, appropriate documentation) to make investors fully aware of the unregulated status of these products and services and of the fact that they may not benefit from the regulatory protections that apply to investments in a regulated product. In addition, ESMA recommends investment firms take into consideration the impact that their unregulated activities may have on the firm's business activity as a whole when it comes to risk management systems and policies.

# Risk Management



## EBA updated list of correlated currencies.

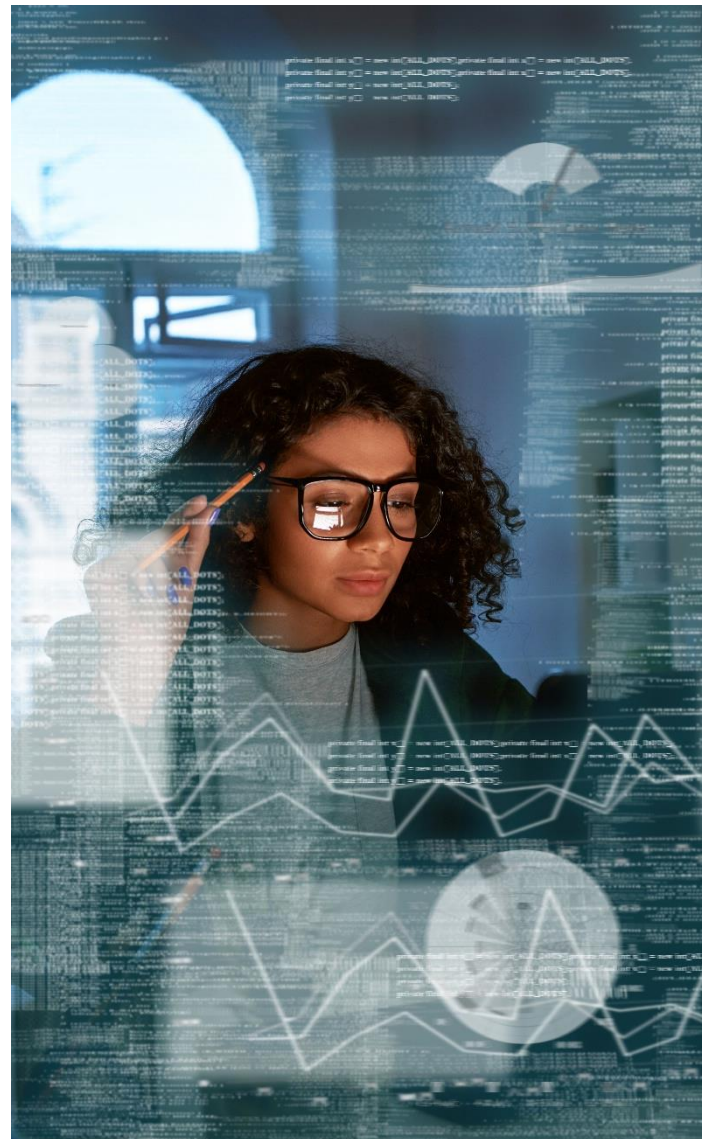
On June 09, 2023 the European Banking Authority (EBA) published the 2023 update of the list of closely correlated currencies, originally published in December 2013. The list is part of the implementing technical standards (ITS) that were drafted for calculating the capital requirements for foreign-exchange risk according to the standardised rules. The list was updated according to the procedure and methodology laid down in the ITS and submitted to the European Commission for endorsement.

## EBA Annual Report highlights key achievements in 2022.

On June 12, 2023 the European Banking Authority (EBA) published its Annual Report that sets out the activities and achievements in 2022. The report also presents the strategic priorities for 2023, which include finalising the Basel III implementation in the EU, performing an enhanced EU-wide stress test, putting data at the service of stakeholders, working on digital finance and delivering on MiCAR and DORA mandates, enhancing capacity to fight money laundering and the financing of terrorism in the EU, and executing the Environmental, Social and Governance (ESG) roadmap.

## FSB consults on toolkit for enhancing third-party risk management and oversight.

On June 22, 2023 the Financial Stability Board (FSB) published for public consultation a toolkit for financial authorities and financial institutions as well as service providers for their third-party risk management and oversight. The toolkit aims to reduce fragmentation in regulatory and supervisory approaches across jurisdictions and different areas of the financial services sector, thereby helping mitigate compliance costs for both financial institutions and third-party service providers and facilitate coordination among relevant stakeholders. The deadline for comments on the consultative document is 22 August 2023.







## EBA adopted a charter on diversity and inclusion.

### IOSCO published Work Program for 2023-2024.

On April 05, 2023 the Board of the International Organization of Securities Commissions (IOSCO) published its 2023 – 2024 Work Program. Each of the proposed priority work streams in this Work Program are organised under the following five themes:

- Strengthening financial resilience
- Supporting market effectiveness
- Protecting investors
- Addressing new risks in sustainability and fintech
- Promoting regulatory cooperation and effectiveness

In addition, following the risks, trends and vulnerabilities identified in its 2023 risk outlook, the IOSCO Board identified private finance as one new priority, under the theme of strengthening financial resilience. The renewed regulatory interest stems from the unprecedented growth of private finance activities and its increasing role in funding the real economy, combined with emerging concerns around the increasing interconnectivity of the sector with regulated public markets at a time of inflationary pressures, recessionary concern and monetary tightening.

### EBA adopts a charter on diversity and inclusion.

On April 19, 2023 the European Banking Authority (EBA) adopted the European Union Agencies network charter on diversity and inclusion thus reinforcing its commitment to take concrete actions to promote equal treatment of and opportunities for its staff. The EBA is fully committed to taking a proactive approach to diversity and inclusion. Fair and equal opportunities as well as the prevention of discrimination among staff are at the core of its working culture. In particular, action carried out since 2021 has allowed the EBA to obtain significant results in the area of gender equality where it rebalanced the gender composition of its entire management team.

### BCBS: Corporate Governance Principles for Banks - Executive Summary.

On April 27, 2023 the Basel Committee on Banking Supervision (BCBS) published its updated corporate governance principles for banks. The 13 revised principles provide a framework within which banks and supervisors should operate to achieve robust and transparent risk management and decision-making. Sound corporate governance of banks can promote public confidence and uphold the safety and soundness of the banking system.

Given significant differences in legislative and regulatory frameworks across jurisdictions that may restrict the application of certain principles, each jurisdiction should apply the provisions as the national authorities see fit. The implementation of these principles should also be commensurate with the size, complexity, structure, economic significance, risk profile and business model of the bank and the group (if any) to which it belongs.

### ESMA postpones to 2024 the annual IFRS amendment of the ESEF.

On May 10, 2023 the European Securities and Markets Authority (ESMA) decided to postpone to 2024 the amendment of the European Single Electronic Format (ESEF) Regulatory Technical Standard (RTS). This decision is in part due to the limited changes in the 2023 update to the International Financial Reporting Standards (IFRS) Taxonomy. Throughout 2023, ESMA will monitor the implementation of the ESEF requirements, assess how to improve digital reporting and develop the ESEF sustainability taxonomy and requirements.

### EIOPA: Publication of the Annual Report 2022.

On June 14, 2023 the European Insurance and Occupational Pensions Authority (EIOPA) published its Annual Report 2022, setting out its activities and achievements of the past year. According to the report:

- consumer protection remained a priority;
- to enhance the quality and effectiveness of supervision, EIOPA made good use of its supervisory and oversight tools, including through active engagement with and visits to national competent authorities (NCAs) and third-country parties;



- from a financial stability perspective, EIOPA continued to identify trends and potential risks and vulnerabilities of the industry in the context of a higher cost of living and slow economic growth;
- EIOPA carried out its first IORP climate stress test to gain insights into the effects of environmental risks on the European occupational pension sector and developed a set of risk indicators for physical climate change risk for non-life business;
- as part of its work supporting the transition to a more sustainable economy, EIOPA published the first Europe-wide dashboard on natural catastrophe insurance protection gaps, as well as a number of other publications in this area;
- in the area of digital innovation, EIOPA kept abreast of new developments as well as furthering work on, for example, Open Insurance, the use of block chain and machine learning.

## ESMA launched Data Strategy for the next five years.

On June 15, 2023 the European Securities and Markets Authority (ESMA) published its Data Strategy for 2023-2028. Over the coming five years, ESMA will work to facilitate the use of new data-related technologies, reduce reporting compliance costs by regulated entities, enable the effective use of data at both EU and national level; and make data more broadly available to the public.

## ESMA in 2022 - Focus on financial stability and investor protection.

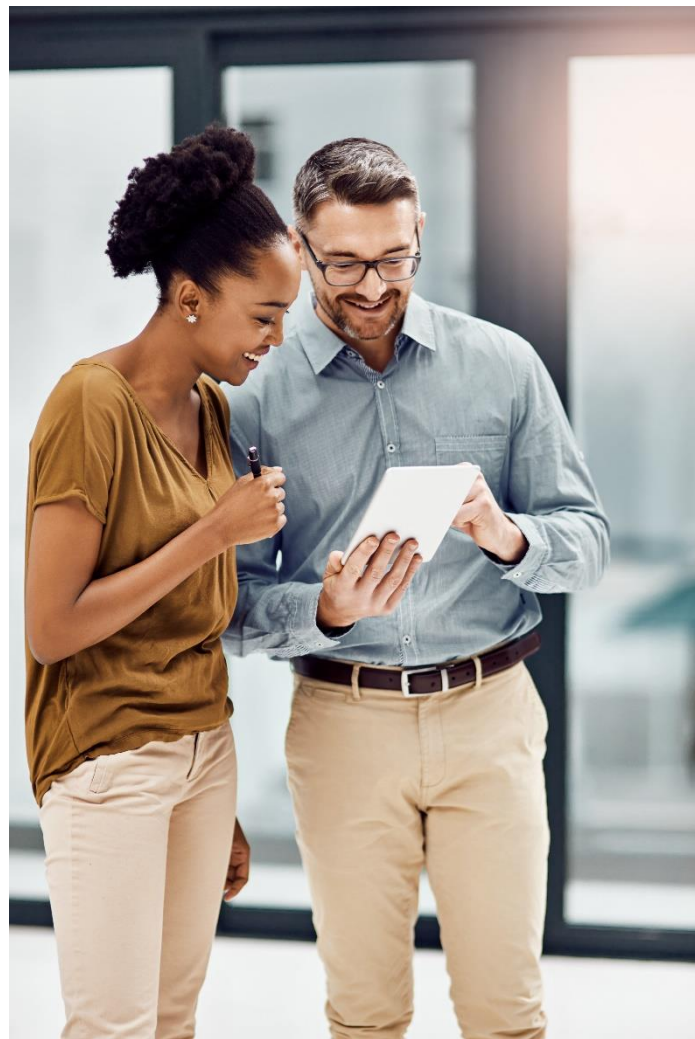
On June 16, 2023 the European Securities and Markets Authority (ESMA) published its Annual Report for 2022. It sets out the key achievements of the authority in fulfilling its mission of enhancing investor protection and promoting stable and orderly financial markets in the European Union (EU) during a transformative year.

ESMA's key achievements in 2022 included developing its new Strategy which will guide its work over the years 2023-2028. ESMA also delivered extensive work throughout the year to respond to the consequences of the Russian invasion of Ukraine. 2022 was also a significant year from the supervisory convergence perspective, with several Common Supervisory Actions, three major peer reviews including one detailing the actions undertaken by NCAs linked to relocations following Brexit, and

ESMA issuing its first recommendations to a national competent authority under article 16 of its Founding Regulation.

## BIS: Annual Report 2022/23.

On June 25, 2023 the Bank for International Settlements (BIS) published its Annual Report for 2022/23. The report highlights BIS's commitment to global monetary and financial stability, and its ongoing role as the global forum for central bank cooperation. It also documents the progress made in advancing Innovation BIS 2025 strategy.



# Appendix: Glossary

## **AANA**

Aggregate Average Notional Amount

## **AML/CFT**

Anti-Money Laundering and Countering the Financing of Terrorism

## **AI**

Artificial Intelligence

## **AISPs**

Account Information Service Providers

## **AIFMD**

Alternative Investment Funds Market Directive

## **BCBS**

Basel Committee on Banking Supervision

## **BIS**

Bank of International Settlements

## **BMR**

EU Benchmark Regulation

## **CDD**

Customer Due Diligence

## **CRD IV**

Capital Requirements Directive IV

## **DGSs**

Deposit Guarantee Schemes

## **DLT**

Distributed Ledger Technology

## **DRSP**

Data Reporting service providers

## **AISPs**

Account Information Service Providers

## **EBA**

European Banking Authority

## **ECON**

Economic and Monetary Affairs Committee

## **EIOPA**

European Insurance and Occupational Pensions Authority

## **EP**

European Parliament

## **ESAs**

European Supervisory Authorities

## **ESG**

Environmental, Social and Governance

## **FICC**

Fixed Income Clearing Corporation

## **GAR**

Green Asset Ratio

## **IOSCO**

International Organization of Securities Commissions

## **IAS**

International Accounting Standards

## **IFRS**

International Financial Reporting Standards

# Appendix: Glossary

## **IT**

Information Technology

## **ITS**

Implementing Technical Standards

## **IOSCO**

International Organization of Securities Commissions

## **LCR**

Liquidity Coverage Ratio

## **LIBOR**

London Inter-Bank Offered Rate

## **MiCA**

Markets in Crypto Assets

## **NPEs**

Non-Performing Exposures

## **NPL**

Non-Performing Loans

## **P2B**

Platform to Business

## **PISPs**

Payment Initiation Services Providers

## **RTS**

Regulatory Technical Standard

## **RegTech**

Regulatory Technology

## **RWAs**

Risk weighted assets

## **SFDR**

EU Regulation on sustainability-related disclosures in the financial services sector

## **SFTR**

Securities Financing Transactions Regulation

## **SFT**

Securities Financing Transactions

## **SupTech**

Supervisory Technology

## **OTC**

Over-the-Counter



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