THE FINANCIAL SERVICES INSIDER

Risk & Regulatory insights

Regulatory updates

April 2022

Highlights

Just as markets entered 2022 with optimism to return to a growth trajectory, the recent events have triggered turmoil increasing uncertainty about the recovery of the global economy. Additionally, higher commodity prices which increases the risks of long-lasting high inflation and of social unrest in almost all over the world.

Imposed sanctions and other restrictive measures set in place put considerable pressure on the economy, with repercussions in many countries, the business environment, with the Banking sector and financial institutions been at the core of it.

These events may affect the current macroeconomics perspective and possibly delay some of the planned investments and green and digital transition initiatives. For this reason, continuous monitoring and decisive actions are required to ensure long term goals will be achieved.

On the regulatory –supervisory front, the most notable evolutions in Q1 2022 relate to the following activities:

- Climate Stress Tests initiation for Banks (expected to initiate later on this year for Insurance companies),
- European Commission's release of draft Taxonomy Complementary Climate Delegated Act on climate change mitigation along with numerous other consultations, progress reports etc. issued by various authorities as the ESG and climate change agenda is heavily increasing,
- the adaptation covering certain gas and nuclear activities and
- endorsement of positive preliminary assessment of Greece's request for €3.6 billion disbursement under RRF

Other significant evolutions are briefly described below.

Highlights

Anti-Money Laundering (AML)

Regarding AML aspects, EBA i) alerts on the detrimental impact of unwarranted de-risking and ineffective management of money laundering and terrorist financing risks, ii) published a discussion paper on its preliminary observations on selected payment fraud data under the PSD2 and iii) launched “EuReCA”, the EU's central database for AML and CFT. Also, the Governing Council of ECB adopted Opinions CON/2022/4 & CON/2022/5 on AML/CFT.

Capital Markets

ECB will not extend capital and leverage relief for banks and requires banks to hold marginally more capital in 2022, while EIOPA launched a public consultation on retail investor protection in relation to the sale of IBIPs.

In addition, ESMA i) published guidelines on delayed disclosure under MAR, ii) issued 2021 report on accepted market practices under MAR, iii) launched a CSA with NCAs on valuation of UCITS and open-ended AIFs and iv) proposed reforms to improve resilience of MMFs.

Environmental, Social and Governance (ESG)

Regarding ESG / Climate change aspects, ECB Banking Supervision launched 2022 climate risk stress test and issued a Supervisory assessment of institution’s climate related and environmental risks disclosures, while EIOPA published third paper on methodological principles of insurance stress testing climate risks. Also, EBA recommends adjustments to the proposed EU Green Bond Standard as regards securitisation transactions. Moreover, ECB stated that Banks must get better at disclosing climate risks and IPCC published a report on Climate Change.

Furthermore, EC:

- endorsed the new guidelines on State aid for Climate, Environmental protection and Energy;
- presented Complementary Climate Delegated Act to accelerate decarbonization;
- presented a new Standardization Strategy;
- proposed Chips Act to confront semiconductor shortages and strengthen Europe's technological leadership.

In addition, ESMA:

- finds high level of divergence in disclosure of ESG factors in credit ratings;

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- published its Sustainable Finance Roadmap for 2022-2024;
- launched call for evidence on climate risk stress testing for CCPs.

FinTech

FSI of the BIS published a paper which assesses the merits of extending a banking license to tech firms and explores their regulatory landscape in seven jurisdictions. Also, Commission puts forward declaration on digital rights and principles for everyone in the EU while EPC issued its guide on MSCTs.

Furthermore, ESAs:

- welcomed ESRB recommendation on a pan-European systemic cyber incident coordination framework;
- published thematic repository on financial education and digitalization initiatives of NCAs;
- published a joint report in response to the February 2021 Call for Advice on Digital Finance.

In addition, FSB warns of emerging risks from crypto-assets to global financial stability while ECB released a working paper regarding the real effects of FinTech lending on SMEs.

Insurance

Regarding Insurance aspects, McKinsey & Company published the Global Insurance Report 2022 while EIOPA published i) a report on the application of the IDD and ii) a second survey concerning the PEPP. Also, Insurance Europe raised concerns about aspects of EIOPA's climate change ORSA guidance.

Furthermore, Insurance Europe published:

- its response to a call for evidence from the ESAs on the European Commission's upcoming review of the PRIIPs Regulation;
- its response to the European Commission's Better Regulation consultation on its proposals for the review of the Solvency II regulatory framework;
- updated key messages on EC proposals for CSRD;
- updated key messages on EC proposal for EU Green Bond Standard.

Highlights

MIFID II

ESMA i) published guidance on appropriateness and execution-only requirements under MiFID II, ii) published supervisory briefing on firms using tied agents in the MiFID II framework, iii) made new bond liquidity data available and published data for the SI calculations, iv) launched a CSA with NCAs on MiFID II costs and charges, v) responded to EC's consultation on the Listing Act and vi) published results of annual transparency calculations for equity and equity-like instruments.

Risk Management

ECB has issued its Annual Report regarding 2021 operations and repeated once more, through a CEO letter, the need to focus more on the proper handling of the rising Highly Leverage transactions. Also, macroeconomic projections for the euro area have been issued, considering the current situation and the implications from Russian invasion to Ukraine

Further to the publication of the first Trend Risks and Vulnerabilities (TRV) Report of 2022, ESMA published final reports on CCP recovery regime.

Also, EIOPA published its Supervisory Convergence Plan for 2022 and the results from its yearly study on the modelling of market and credit risk in internal models.

Last but not least, EBA:

- published guidelines for institutions and resolution authorities on improving banks' resolvability and consults on transferability;
- confirmed the continued application of COVID-19 related reporting and disclosure requirements until further notice;
- amended standards on currencies with constraints on the availability of liquid assets;
- published annual assessment of banks' internal approaches for the calculation of capital requirements;
- updated methodology for assessing third country equivalence of regulatory and supervisory frameworks;
- published final guidelines on the limited network exclusion under the PSD2.

Moreover, Basel Committee presented the results of the latest Basel III monitoring exercise.

Highlights

Other

ESMA announced its mandate as direct supervisor of EU DRSPs. Furthermore, EC:

- published enhanced surveillance report for Greece;
- endorsed positive preliminary assessment of Greece's request for €3.6 billion disbursement under RRF ;
- adopted its first annual report on the implementation of the RRF;
- opens in-depth investigation into Greek support measures in favor of ELTA.

Anti-Money Laundering (AML)

EBA launched "EuReCA", the EU's central database for AML and CFT.

EBA alerts on the detrimental impact of unwarranted de-risking and ineffective management of money laundering and terrorist financing risks.

On January 5, 2022 the European Banking Authority (EBA) published an opinion on the scale and impact of de-risking in European Union and the steps that competent authorities should take to tackle unwarranted de-risking. To assess the scale and impact of de-risking across European Union and to better understand why institutions decide to de-risk particular categories of customers instead of managing the risks associated with such relationships, EBA reached out to relevant competent authorities across the European Union as well as to external stakeholders. The EBA findings suggest that de-risking has a detrimental impact on the achievement of objectives of European Union, in particular in relation to fighting financial crime effectively and promoting financial inclusion, competition and stability in the single market.

EBA published a discussion paper on its preliminary observations on selected payment fraud data under the PSD2.

On January 17, 2022 the European Banking Authority (EBA) published a discussion paper on its preliminary observations on selected payment fraud data under the Payment Services Directive (PSD2), as reported by the industry for the years 2019 and 2020. This paper presents the main findings related to three payment instruments: credit transfers, card-based payments and cash withdrawals and also outlines other patterns that appear to be inconclusive and that would benefit from comments and views from market stakeholders. The deadline for the submission of comments is April 19, 2022. The responses to the questions raised in the discussion paper will support the EBA, the European Central Bank (ECB) and national authorities in interpreting the fraud data that will be reported in future years.

EBA launched "EuReCA", the EU's central database for AML and CFT.

On January 31, 2022 the European Banking Authority (EBA) launched "EuReCA", its central database for anti-money laundering (AML) and counter-terrorist financing (CFT). EuReCA will contain information on material weaknesses in individual financial institutions in the EU that Member State competent authorities have identified. Competent authorities will also be reporting the measures they have imposed on financial institutions to rectify those material weaknesses.

The EBA will use information from EuReCA to inform its view of ML/TF risks affecting the EU financial sector. It will also share information from EuReCA with competent authorities as appropriate, to support them at all stages of the supervisory process. In this regard, EuReCA will act as an early warning tool, which will help competent authorities to act before ML/TF risk crystallize.

EuReCA has been established based on provisions in article 9a (1) and (3) of the EBA Regulation and in the draft Regulatory Technical Standards (RTS) on a central database on AML/CFT in the EU that were published on the EBA's website on 20 December 2021. EuReCA will not start to collect personal data until the approval of the draft RTS by the European Commission.

Governing Council of ECB adopted Opinion CON/2022/4.

On February 16, 2022 the Governing Council of ECB adopted Opinion CON/2022/4 on a proposal for a regulation of the European Parliament and of the Council establishing the Authority for Anti-Money Laundering and Countering the Financing of Terrorism.

Governing Council of ECB adopted Opinion CON/2022/5.

On February 16, 2022 the Governing Council of ECB adopted Opinion CON/2022/5 on a proposal for a directive and a regulation on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing.

Capital Markets

ECB will not extend capital and leverage relief for banks and requires banks to hold marginally more capital in 2022.

ESMA published guidelines on delayed disclosure under MAR.

On January 5, 2022 the European Securities and Markets Authority (ESMA) published Guidelines referring to the assessment of the conditions to delay inside information in accordance with Market Abuse Regulation (MAR), by issuers. The Guidelines are aimed at enhancing legal certainty, fostering supervisory convergence and providing clarity to the way the abovementioned assessment should be performed. In addition, the Guidelines provide clarifications on the institutions' case-by-case assessment as to whether they would be in possession of inside information in relation to the institution-specific Supervisory Review and Evaluation Process (SREP) decisions received from their prudential competent authority (referencing the Pillar 2 Capital Requirements (P2R) and Capital Guidance (P2G)).

More specifically, the Guidelines clarify the following:

- In case of reductions, redemptions and repurchases of own funds the institutions have a legitimate interest to delay the disclosure of inside information until the prudential competent authority has authorized the transactions;
- There is a legitimate interest for the institution to delay the disclosure of the draft SREP decision, until it becomes final concurrent to the completion of the decision-making process of the prudential competent authority;
- In respect of the content of the SREP decisions, the P2R are expected to be considered as inside information and price sensitive whereas P2G may only be inside information.

The Guidelines will be applicable 2 months after the publication of translations.

ESMA issued 2021 report on accepted market practices under MAR.

On January 18, 2022 the European Securities and Markets Authority (ESMA) published its annual report on the application of accepted market practices (AMPs) in accordance with the Market Abuse Regulation (MAR).

The number of liquidity contracts and the volumes traded under the AMPs has decreased for the four NCAs that have them in place (CNMV, CMVM, CONSOB and AMF) from June 2020 to June 2021, with only a marginal number of contracts operational under the Italian and Portuguese AMPs.

ESMA launched a CSA with NCAs on valuation of UCITS and open-ended AIFs.

On January 20, 2022 the European Authorities and Securities Markets Authority (ESMA) announced the launch of a common supervisory action (CSA) with national competent authorities (NCAs) on the valuation of UCITS and open-ended alternative investment funds (AIFs) across the EU.

The CSA aims to assess compliance of supervised entities with the relevant valuation-related provisions in the UCITS and AIFMD frameworks, in particular the valuation of less liquid assets, and will be conducted throughout 2022.

The CSA will focus on authorised managers of UCITS and open-ended AIFs investing in less liquid assets i.e.: unlisted equities, unrated bonds, corporate debt, real estate, high yield bonds, emerging markets, listed equities that are not actively traded, bank loans.

The work will be done using a common assessment framework developed by ESMA, which sets out the scope, methodology, supervisory expectations and timeline for how to carry out a comprehensive supervisory action in a convergent manner.

Capital Markets

EIOPA consults on its proposals on Retail Investor Protection.

On January 28, 2022 the European Insurance and Occupational Pensions Authority (EIOPA) launched a public consultation on retail investor protection in relation to the sale of Insurance-Based Investment Products (IBIPs). The consultation is a response to a Call for advice, which the European Commission sent to EIOPA in July 2021. The Call for advice relates to the implementation of the European Commission's Capital Markets Union Action Plan and, more specifically, its Retail Investment Strategy, which aims to improve consumer outcomes and increase consumer participation in capital markets.

EIOPA presents its proposals in five different areas in the consultation paper:

i. Enhancing consumer engagement with disclosures, including digital disclosures;
ii. Assessing the risks and opportunities presented by new digital tools & channels;
iii. Tackling damaging conflicts of interest in the sales process;
iv. Promotion of an affordable and efficient sales process;
v. Assessing the impact of complexity in the retail investment product market.

Comments on the consultation were sought by 25 February 2022.

ECB will not extend capital and leverage relief for banks.

On February 10, 2022 the European Central Bank (ECB) published a press release stating that they will not extend capital and leverage relief for banks. The ECB sees no need to allow banks to operate below the level of capital defined by their Pillar 2 guidance beyond December 2022. Banks are also being asked to plan to maintain sufficient capital in the view of the expiry of this prudential exemption in March 2022 that currently allows them to exclude central bank exposures from their leverage ratios.

ECB requires banks to hold marginally more capital in 2022.

On February 10, 2022 the European Central Bank (ECB) published the results of its Supervisory Review and Evaluation Process (SREP) for 2021.

The findings of that annual assessment indicate that significant institutions have maintained solid capital and liquidity positions, with most banks operating at capital levels above those dictated by capital requirements and guidance. Banks' scores remain broadly stable overall. Overall capital requirements and guidance increase marginally to stand at 15.1% of risk-weighted assets in 2022, up from 14.9% in 2021. Credit risk and internal governance remain key areas in terms of supervisory action.

ESMA proposes reforms to improve resilience of MMFs.

On February 16, 2022 the European Securities and Markets Authority (ESMA) issued an Opinion containing proposed reforms to the regulatory framework for EU Money Market Funds (MMFs) under the Money Market Funds Regulation (MMFR). The proposals will improve the resilience of MMFs by addressing in particular liquidity issues and the threshold effects for constant net asset value (CNAV) MMFs.

The ESMA Opinion includes the following key policy measures aimed at improving the resilience of MMFs:

- Addressing the threshold effects for constant net asset value (CNAV) MMFs, by:
- Removing the possibility to use amortized costs for low volatility NAV (LVNAVs) MMFs; and
- Decoupling regulatory thresholds from suspensions, gates and redemption fees for LVNAV/CNAV MMFs.
- Addressing liquidity related issues by:
- Ensuring mandatory availability of at least one liquidity management tool for all MMFs;
- Amendments of the Daily liquid asset/ Weekly liquid assets ratios as well as the pool of eligible assets, including public debt assets, which can be used to satisfy these liquidity ratios; and
- Inclusion/Reinforcement of the possibility to temporarily use liquidity buffers in times of stress.

Capital Markets

ESMA coordinates regulatory response to the war in Ukraine and its impact on EU financial markets.

On March 14, 2022 the European Securities and Markets Authority (ESMA) in coordination with National Competent Authorities (NCAs), announced its supervisory and coordination activity, as well as recommendations to financial market participants to ensure the orderly functioning of markets, financial stability and investor protection as war in Ukraine continues.

Some of the supervisory and coordinating activities outlined include the close monitoring CCP related volatility and margin developments in energy and commodities market segments as well as the active engagement with Credit Rating Agencies (CRAs) and supervised benchmarks administrators to ensure sufficient transparency around ratings and verify the impact of market developments and sanctions on the provided benchmarks, respectively. Moreover, ESMA is facilitating the collection and sharing of information and experiences among NCAs regarding cyber incidents and monitoring the impact of sanctions on Central Securities Depositories (CSD's) operations while at the same time assisting with their implementation in a consistent manner.

Regarding the market recommendations, ESMA stated that issuers should provide transparency, to the extent possible on both a qualitative and quantitative basis, on the actual and foreseeable direct and indirect impacts of the crisis on their business activities in their 2021 year-end financial report. Additionally, they should disclose, in line with Market Abuse Regulation obligations, any inside information concerning the impacts of the crisis on their fundamentals, prospects, and financial situation.

Capital Markets Union: EC proposes simpler rules to make settlement in EU financial markets safer and more efficient.

On March 16, 2022 the European Commission (EC), in order to strengthen the efficiency of the EU's settlement markets, proposed changes to the Central Securities Depositories Regulation (CSDR).

The proposal contains the following key improvements to the abovementioned Regulation:

- Simplification of passporting for Central Securities Depositories, through which they can operate across the EU with one single license.
- Strengthening cooperation between supervisory authorities by requiring the establishment of colleges for certain Central Securities Depositories to increase consistent and convergent supervision.
- Improvement of banking-type ancillary services by adjusting the conditions under which Central Securities Depositories can access banking services,
- Improvement of third-country Central Securities Depositories oversight
- Increase in effectiveness of the settlement discipline regime by amending technical aspects and elements of the regime.

The next steps include the submission of the proposal to the European Parliament and the Council for consideration and adoption.

ESMA extends UK CCPs' recognition decisions.

On March 25, 2022 the European Securities and Markets Authority (ESMA) announced that it had amended the recognition decisions and tiering determination decisions in respect of the three recognized UK central counterparties (CCPs) – ICE Clear Europe Ltd, LCH Ltd and LME Clear Ltd – that were adopted by ESMA on 25 September 2020, to align them with Commission Implementing Decision (EU) 2022/174 adopted by the European Commission on 8 February 2022.

Accordingly, the application of the recognition decisions and tiering determination decisions in respect of ICE Clear Europe Ltd, LCH Ltd (as Tier 2 CCPs) and LME Clear Ltd (as a Tier 1 CCP) has been temporarily extended until 30 June 2025.

Capital Markets

ESMA updates on third-country CCP recognition decisions.

On March 25, 2022 the European Securities and Markets Authority (ESMA) announced a series of updates in relation to the recognition of central counterparties (CCPs) established in third countries under the European Markets Infrastructure Regulation (EMIR).

The updates include the review of recognitions of third country CCPs (TC–CCPs) that were already previously recognized, the conclusion of revised Memoranda of Understanding with relevant third country authorities, as well as the first-time recognition of the National Securities Clearing Corporation (NSCC). NSCC is authorized and supervised by the US Securities and Exchange Commission (SEC), as a Tier 1 CCP under Article 25 of EMIR following the adoption by the European Commission of Commission Implementing Decision (EU) 2021/852 on the equivalence to the requirements of EMIR of the United States regulatory framework for CCPs that are authorized and supervised by the SEC in January 2021.

Environmental, Social and Governance (ESG)

ECB Banking Supervision launched 2022 climate risk stress test and EC endorsed the new guidelines on State aid for Climate, Environmental protection and Energy.

ECB Banking Supervision launched 2022 climate risk stress test.

On January 27, 2022 the European Central Bank (ECB) launched a supervisory climate risk stress test to assess how prepared banks are for dealing with financial and economic shocks stemming from climate risk.

In its letter to the CEO of a significant institution, the ECB states that the exercise consists of three distinct modules comprising a:

- questionnaire on banks' climate stress test capabilities. This will assess how banks are building their climate stress test capabilities for use as a risk management tool;
- peer benchmark analysis to assess the sustainability of banks' business models and their exposure to emission-intensive companies. The analysis will compare banks across a common set of climate risk metrics. These metrics include how much banks rely on income from carbon-intensive industries and what volume of greenhouse gas emissions banks finance; and
- bottom-up stress test. This will target transition and physical risks and assesses how extreme weather events would affect banks over the next year, how vulnerable banks are to a sharp increase in the price of carbon emissions over the next three years and how banks would respond to transition scenarios over the next 30 years.

The test will use macro-financial scenarios based on scenarios prepared by the Network of Central Banks and Supervisors for Greening the Financial System. From March 2022, banks will submit their climate risk stress test templates to the ECB for assessment. The exercise will be conducted in the first half of 2022 after which the ECB will publish aggregate results.

EIOPA published third paper on methodological principles of insurance stress testing climate risks.

On January 27, 2022 the European Insurance and Occupational Pensions Authority (EIOPA) published its third paper in a series of papers on the methodological principles of insurance stress testing. The methodological paper focuses on the climate change component and is a further step in enhancing EIOPA's stress testing framework.

In particular, the paper sets out methodological principles that can be used to design bottom-up stress test exercises that aim to assess the vulnerability of insurers to climate risks. Although the emergence of climate risks is relatively recent compared to other insurance-specific and financial risks, incorporating them has rapidly become a priority for policymakers and supervisors alike.

Guidelines on State aid for climate, environmental protection and energy 2022.

On January 27, 2022 the European Commission formally endorsed the new guidelines on State aid for Climate, Environmental protection and Energy (CEEAG). The new guidelines provide the framework for public authorities to effectively support the objectives of the European Green Deal by minimizing distortions of competition.

In particular, the new Guidelines:

- Broaden the categories of investments and technologies that Member States can support;
- Increase flexibility and streamline the existing rules;
- Introduce safeguards;
- Ensure coherence with the relevant EU legislation and policies.

EU Taxonomy: Commission presented Complementary Climate Delegated Act to accelerate decarbonization.

On February 2, 2022 the European Commission released a draft Taxonomy Complementary Climate Delegated Act on climate change mitigation and adaptation covering certain gas and nuclear activities.

Environmental, Social and Governance (ESG)

In particular, the Commission highlighted that the College of Commissioners reached a political agreement on the text, which will be formally adopted once translations are available in all EU languages. Furthermore, the Commission noted that the EU Taxonomy aims to guide private investment to activities that are needed to achieve climate neutrality, and does not determine whether a certain technology will or will not be part of Member State energy mixes. In addition, the Commission clarified that the draft Complementary Delegated Act introduces:

- additional economic activities from the energy sector into the EU Taxonomy; and
- specific disclosure requirements for businesses related to their activities in the gas and nuclear energy sectors.

Finally, the Commission stated that the text of the draft Complementary Delegated Act follows expert consultations with the Member States Expert Group on Sustainable Finance, and the Platform on Sustainable Finance, in addition to feedback from the European Parliament.

New approach to enable global leadership of EU standards promoting values and a resilient, green and digital Single Market.

On February 2, 2022 the Commission presented a new Standardization Strategy outlining the approach to standards within the Single Market as well as globally. The Strategy is accompanied by a proposal for an amendment to the Regulation on standardization, a report on its implementation, and the 2022 annual Union work program for European standardization. This new Strategy aims to strengthen the EU's global competitiveness, to enable a resilient, green and digital economy and to enshrine democratic values in technology applications.

Standards are the silent foundation of the EU Single Market and global competitiveness. They help manufacturers ensure the interoperability of products and services, reduce costs, improve safety and foster innovation. Standards are an invisible but fundamental part of our daily life: from Wi-Fi frequencies, to connected toys or ski bindings, just to mention a few. Standards give confidence that a product or a service is fit for purpose, is safe and will not harm people or the environment. Compliance with harmonized standards guarantees that products are in line with EU law.

ESMA finds high level of divergence in disclosure of ESG factors in credit ratings.

On February 10, 2022 the European Securities and Markets Authority (ESMA) published an article assessing the implementation of ESMA's guidelines on the disclosure of environmental, social, and governance (ESG) factors in credit rating agency (CRA) press releases. ESMA finds that the overall level of disclosures has increased since the introduction of the guidelines, but that a high level of divergence across CRAs means there is still room for further improvement.

ESMA prioritises the fight against greenwashing in its new Sustainable Finance Roadmap.

On February 11, 2022 the European Securities and Markets Authority (ESMA) published its Sustainable Finance Roadmap for 2022-2024. In the Roadmap ESMA identifies three priorities for its sustainable finance work:

- Tackling greenwashing and promoting transparency. ESMA will investigate this issue, define its fundamental features and address it with coordinated action across multiple sectors.
- Building Member State competent authorities' (NCAs) and ESMA's capacities in the sustainable finance field. ESMA will help build its, and NCAs', capacity on sustainable finance through a multi-year training programme and through facilitating the active sharing of supervisory experiences among NCAs. These efforts will also contribute to creating effective and consistent supervision in the area of sustainable finance.
- Monitoring, assessing and analysing ESG markets and risks. ESMA will leverage on its data-analysis capabilities to support its, and NCAs', supervisory work and promote a convergent approach among NCAs. ESMA will undertake specific activities such as climate scenario analysis for investment funds, central counterparty stress testing and the establishment of common methodologies for climate-related risk analysis together with other public bodies.

Environmental, Social and Governance (ESG)

Digital sovereignty: Commission proposes Chips Act to confront semiconductor shortages and strengthen Europe's technological leadership.

On February 8, 2022 the European Commission (EC) issued a proposal of the European Chips Act that will strengthen Europe's competitiveness, resilience and help reach both the digital and green transition goals.

The EU Chips Act will address outstanding weaknesses by utilizing Europe's world-leading research and technology organisations. It will bring about a thriving semiconductor sector from research to production and a resilient supply chain. The Chips Act has three main components:

1. The Chips for Europe Initiative will make €11 billion available to strengthen existing R&D and innovation, ensure testing and experimentation of new devices for innovative real-life applications and to train staff among other things.
2. A new framework to ensure security of supply by attracting investments and enhanced production capacities. In addition, a Chips Fund to facilitate access to finance for start-ups and a dedicated semiconductor equity investment facility under InvestEU to support scale-ups and SMEs will also be included.
3. A coordination mechanism between the Member States and the Commission for estimating demand, anticipating the shortages and monitoring the supply of semiconductors.

The EC proposal includes a Recommendation to Member States, which is a tool with immediate effect to enable the coordination mechanism between the Member States and the Commission.

NextGenerationEU: European Commission raises an additional €5 billion in support for Europe's recovery.

On February 8, 2022 the European Commission (EC) issued a press release stating that additional €5 billion were raised in NextGenerationEU funds in its effort to support Europe's recovery.

Using funds already raise under NextGenerationEU, the EC has financed a number of Member States with about €67 billion in Recovery and Resilience Facility payments. As of end-December 2021, more than €7 billion has been allocated in support of other EU programmes related to the digital and green transitions. The €5 billion deal is the sixth syndicated transaction the Commission has executed under NextGenerationEU.

The EC intends to execute four more syndicated transactions between March and June 2022. These transactions will be complemented by more monthly EU-bond auctions.

The regulatory response to climate risks: some challenges.

On February 15, 2022 the Financial Stability Institute (FSI) of the Bank for International Settlements (BIS) issued a paper which reviews, from a technical point of view, the challenges that authorities would face in seeking to adjust the prudential framework to cope with climate-related financial risks, and discusses different policy options. According to the paper:

- There is a need for authorities to review their prudential frameworks with a view to taking full account of the implications of climate-related financial risks for financial stability.
- Given the longer time horizons and the higher degree of uncertainty associated with the materialisation of climate-related financial risks, standard Pillar 1 instruments might be suboptimal in addressing such risks.
- In contrast, the intrinsic flexibility of the Pillar 2 framework makes it the natural candidate for ensuring that banks effectively manage such risks and have sufficient loss-absorbing capacity against them.
- Applying the current macroprudential framework to contain systemic climate-related financial risks is likely to be ineffective and potentially counterproductive for financial stability. The same could be said of the introduction of a green supporting factor.

Environmental, Social and Governance (ESG)

ESMA launches call for evidence on climate risk stress testing for CCPs.

On February 23, 2022 the European Securities and Markets Authority (ESMA) issued a call for evidence seeking views on:

- A proposed classification of climate risks relevant to central counterparties (CCPs).
- The methodology to build an EU-wide climate risk stress testing framework for CCPs.
- How to best calibrate this stress test.
- The current development of climate risk assessments by CCPs.

The deadline for responding to the call for evidence is 21 April 2022.

The overall objective is to proactively contribute to the assessment of the resilience of CCPs to adverse market developments, consistent with Article 24a(7b) of the European Markets Infrastructure Regulation. The information gathered through the call for evidence will be used as building blocks of a future EU-wide CCP climate stress test.

IPCC report on Climate Change: Impacts, Adaptation and Vulnerability.

On February 28, 2022 the United Nations' Intergovernmental Panel on Climate Change (IPCC) published the second of four reports forming part of its sixth round of scientific assessment of the state of the planet (AR6). The report highlights that urgent action is required to deal with increasing risks, including increased heatwaves, droughts, and floods. It also highlights that safeguarding and strengthening nature is key to securing a livable future with new insights into nature's potential to reduce climate risks and improve people's lives. Thirdly, the report highlights that cities are hotspots of impacts and risks, but are also a crucial part of the solution. Lastly, the report makes it clear that there is a narrowing window for action. Climate-resilient development is already challenging and its potential will become more limited if global warming exceeds 1.5°C. In some regions, it will be impossible if global warming exceeds 2°C. It clearly shows that climate action, focusing on equity and justice, is urgent and it calls for political commitment and partnership leading to more effective climate change adaptation and emissions reductions.

EBA recommends adjustments to the proposed EU Green Bond Standard as regards securitisation transactions.

On March 2, 2022 the European Banking Authority (EBA) published a report that analyses recent developments and challenges in introducing sustainability in the EU securitisation market. The report examines how sustainability could be introduced in the specific context of securitisation to foster transparency and credibility in the EU sustainable securitisation market and to support its sound development.

The EBA's analysis shows that it would be premature to establish a dedicated framework for green securitisation. Rather, the EBA is of the view that the upcoming EU Green Bond Standard (EU GBS) regulation should also apply to securitisation, provided that some adjustments are made to the standard. The EBA also recommends that the Securitisation Regulation is amended in order to extend voluntary "principal adverse impact disclosures" to non-STS (simple, transparent and standardised) securitisations. It also calls for further EBA work on green synthetic securitisation and social securitisation.

EC and EIB Group sign InvestEU agreements unlocking billions for investment across the EU.

On March 7, 2022 the European Commission (EC), the European Investment Bank (EIB) and the European Investment Fund (EIF) signed the Guarantee Agreement on a European Union budget guarantee of €19.65 billion to support investment projects across Europe. Investments under the InvestEU programme will focus on four policy areas: sustainable infrastructure; research, innovation and digitisation; small and medium-sized businesses; and social investment and skills.

The EC and the EIB also signed the InvestEU Advisory Hub agreement which will provide up to €270 million for market development, developing skills and project level advisory services in the same policy areas.

The agreements pave the way for new investments and related advisory assistance in support of Europe's post-pandemic recovery and green and digital transitions.

Environmental, Social and Governance (ESG)

Towards a green, digital and resilient economy: European Growth Model.

On March 2, 2022 the European Commission (EC) put forward a Communication on the European Growth Model. It recalls the common objectives the EU and its Member States have committed to with respect to the green and digital transition and to strengthening social and economic resilience. It acknowledges that the European economy is undergoing unprecedented transformations in the context of major uncertainties linked to the global and security outlook. The Communication confirms that those developments underscore the need to work closely with international partners and to reinforce long-term sustainable growth agenda.

The Communication aims to provide input to the discussions on the European economic growth model, sets out the key investments and reforms that are required to achieve common objectives and underlines the importance of coordinated action by all relevant actors, including the EU, Member States and the private sector.

Deconstructing ESG scores: how to invest with your own criteria.

On March 9, 2022 the Bank for International Settlements (BIS) published a working paper on the deconstruction of ESG scores from an investment manager's perspective in order to construct a portfolio of equities with good underlying ESG characteristics.

ESG scores constitute a key tool for the implementation of investment managers' ESG strategies (e.g. ESG integration). Typically, investment managers measure ESG performance based on ESG scores provided by one or several data providers. This fact shows how critical ESG scores are to ESG investing and, by extension, to a substantial and rising share of investment allocations on a global scale.

However, the use of ESG scores faces certain challenges. One of the main challenges that investment managers have to face is the very low correlation of scores among the different major data providers.

This can lead an Investment manager to different portfolio selections using the same strategy but different ESG data providers.

The authors of this paper aim to circumvent the inconsistencies of ESG scores by deconstructing them and focusing on the underlying data points.

The results of the paper show that the construction of a portfolio with an ESG objective based on underlying ESG data points comes with no cost in terms of financial performance. Thus, investment managers can construct portfolios with specific ESG benefits, without relying on potentially confounding ESG scores, and still be able to match a desired financial performance.

ECB: Euro Area banks' sensitivity to changes in the carbon price.

On March 10, 2022 the European Central Bank published a working paper analyzing the effects of changes in carbon price on the European banking system. The authors focus on the extent that materialisation of transition risks stemming from the sudden implementation of climate change mitigation policies can impact the financial system.

The aforementioned climate change transition risks are assessed through the implementation of a banking sector contagion model where firms are negatively impacted by an increase in carbon prices. More specifically, this paper evaluates the consequences of a combination of different increases in carbon prices and firm emission reduction strategies by using a unique granular dataset.

The results show that taking early policy action (i.e. more gradual changes in carbon prices), is not expected to lead to adverse impacts on the banking system, especially if firms reduce their emissions efficiently. On the other hand, a disorderly, abrupt transition to a low carbon economy accompanied by very high sudden changes in carbon prices might have disruptive effects on the financial system, especially if firms fail to reduce their emissions.

ECB: Banks must get better at disclosing climate risks.

On March 14, 2022 the European Central Bank (ECB) announced the publication of its "Supervisory assessment of institutions' climate related and environmental risks disclosures," a new report assessing the progress of European banks on disclosing climate and environmental risks.

Environmental, Social and Governance (ESG)

The report indicated that while banks are making some improvements on disclosing climate risks, the level of transparency provided is still insufficient, with no bank fully meeting supervisory expectations.

According to the report, approximately three-quarters of banks fail to disclose whether climate and environmental risks have a material impact on their risk profile, even as many of these have indicated to the ECB that they view themselves as exposed to these risks. Additionally, nearly 60% of banks do not describe how transition risk or physical risk could affect their strategy. Approximately half of the banks publish key performance or risk indicators on climate and environmental risks, and most of the banks that have committed to align exposures with Paris Agreement goals have not comprehensively substantiated these commitments in their disclosures. Additionally, only 15% disclose scope 3 financed emissions, which typically account for the vast majority of banks' climate footprint.

The report did note some improvement over the most recent prior assessment in 2020, with roughly 70% of banks now providing information about climate and environmental risk governance and board oversight, compared to approximately 50% before.

IOSCO's 2022 Sustainable Finance work plan strengthens the organization's commitment to increasing transparency and mitigating greenwashing.

On March 14, 2022 the International Organization of Securities Commissions (IOSCO) adopted and set out a workplan for 2022, to develop sustainable finance and mitigate greenwashing.

As part of the workplan, IOSCO will:

- conduct a timely and thorough review of the soon-to-be-published IFRS International Sustainability Standards Board (ISSB) Exposure Drafts of proposed climate and general sustainability disclosure requirements as well as of the final standards when they are produced. If IOSCO determines that the IFRS Sustainability Standards are fit for purpose, its decision would provide all 140 IOSCO member jurisdictions with the basis to decide how they might adopt, apply, or be informed by the ISSB standards.
- push forward work to develop assurance standards. IOSCO has identified independent assurance of the quality of corporate reporting of sustainability information as a key element of building trust in sustainability reporting.
- has committed to an in-depth review of carbon markets to identify the vulnerabilities in nascent voluntary carbon markets as well as of the transparency and integrity in the functioning of carbon markets from the perspective of financial regulation.
- step-up its engagement with national regulators and market participants to push for the implementation of its recommendations addressed to asset management and environmental, social, and governance (ESG) ratings and data providers.

ESAs issue updated supervisory statement on the application of the SFDR.

On March 25, 2022 the European Supervisory Authorities (ESAs) updated their joint supervisory statement on the application of the Sustainable Finance Disclosure Regulation (SFDR). The updated statement includes a new timeline, expectations about the explicit quantification of the product disclosures under Articles 5 and 6 of the Taxonomy Regulation, and the use of estimates. The updated statement replaces the initial joint supervisory statement, which was released in February 2021.

In terms of timing the ESAs recommend that Member State national competent authorities and market participants use the current interim period from 10 March 2021 until 1 January 2023 to prepare for the application of the forthcoming Commission Delegated Regulation containing the regulatory technical standards while also applying the relevant measures of the SFDR and the Taxonomy Regulation according to the relevant application dates outlined in the supervisory statement.

As for Articles 5 and 6 of the Taxonomy Regulation, the ESAs provide that the supervisory expectation for disclosures during the interim period is that financial market participants should provide an explicit quantification, through the numerical disclosure of the percentage, of the extent to which investments underlying the financial product are taxonomy-aligned.

FinTech

ECB released a working paper regarding the real effects of FinTech lending on SMEs.

Gatekeeping the gatekeepers: when big techs and fintechs own banks – benefits, risks and policy options.

On January 20, 2022 the Financial Stability Institute (FSI) of the Bank of International Settlements (BIS) published a paper which assesses the merits of extending a banking license to tech firms and explores their regulatory landscape in seven jurisdictions. To ascertain their risk characteristics, the universe of tech firms that provide financial services is categorized into three groups: standalone fintechs, large diversified fintechs and big techs. Big techs and large diversified fintechs pose the most significant supervisory concerns, with the former requiring more onerous prudential measures than the latter. To mitigate their perceived risks, authorities impose various quantitative and qualitative requirements during authorisation, but supervision and enforcement may pose formidable challenges. In this context, a range of policy options is outlined, that are mapped to the risk profile of tech firms seeking a banking license, to help support the gatekeeping role of prudential authorities.

Commission puts forward declaration on digital rights and principles for everyone in the EU.

On January 26, 2022 the European Commission proposed to the European Parliament and Council to sign up to a declaration of rights and principles that will guide the digital transformation in the EU. The draft declaration on digital rights and principles aims to give everyone a clear reference point about the kind of digital transformation Europe promotes and defends. It will also provide a guide for policy makers and companies when dealing with new technologies. The rights and freedoms enshrined in the EU's legal framework, and the European values expressed by the principles, should be respected online as they are offline. Once jointly endorsed, the Declaration will also define the approach to the digital transformation which the EU will promote throughout the world.

ESAs welcomed ESRB recommendation on a pan-European systemic cyber incident coordination framework.

On January 27, 2022 the three European Supervisory Authorities (EBA, EIOPA and ESMA – ESAs) published a statement welcoming the European Systemic Risk Board’s (ESRB) recommendation on systemic cyber risk, which calls on the ESAs to prepare for the gradual development of a pan-European systemic cyber incident coordination framework (EU-SCICF).

This will support an effective and coordinated response at EU-level in the event of a major cross-border cyber incident that could have a systemic impact on the Union’s financial sector.

The ESRB Recommendation also proposes that the ESAs, in consultation with the European Central Bank (ECB) and the ESRB, carry out a mapping and subsequent analysis of current impediments, legal and other operational barriers for the effective development of the EU-SCICF.

This framework endorses the potential coordination roles of the ESAs as envisaged in the European Commission's proposed Digital Operational Resilience Act (DORA).

ESAs published thematic repository on financial education and digitalization initiatives of NCAs.

On January 31, 2022 the three European Supervisory Authorities (ESAs) published a joint thematic repository on financial education and digitalization initiatives of National Competent Authorities (NCAs), with a specific focus on cybersecurity, scams and fraud.

The three ESAs have developed the repository in line with their mandate in Article 9(1)(b) of their respective Founding Regulations, which requires the authorities “to take a leading role in promoting transparency, simplicity and fairness in the market for consumer financial products or services across the internal market, including by reviewing and coordinating financial literacy and education initiatives by the competent authorities”.

The repository contains 127 national initiatives that provide consumers with helpful information on how to improve their financial literacy. In addition, the EBA also published the second edition of its general repository of national education initiatives in the banking sector, which contains another 200 initiatives.

The Joint ESAs thematic repository focuses on cybersecurity, scams and fraud and consists of more than 120 initiatives across the banking, insurance, pension and investment sectors. Most initiatives are addressed to consumers in general, although some target specific groups of consumers, such as retail investors, elderly people, students, children/young people, families or other particular groups such as journalists and mass media representatives. Some of the initiatives that NCAs have launched build on the increased importance of social media and "influencers" as sources of information and promoters of investment platforms.

The thematic repository will be used to prepare a joint ESAs thematic report on financial education to be published later this year.

ESAs recommend actions to ensure the EU's regulatory and supervisory framework remains fit-for-purpose in the digital age.

On February 7, 2022 the European Supervisory Authorities (ESAs) published a joint report in response to the February 2021 Call for Advice on Digital Finance, from the European Commission. The proposals in this joint report are intended to address risks arising from the transformation of value chains, platformization, and the emergence of new "mixed-activity groups" - that is, groups combining financial and non-financial activities. ESAs recommend rapid action to ensure that the financial services regulatory and supervisory framework in European Union remains fit-for-purpose in the digital age.

FSB warns of emerging risks from crypto-assets to global financial stability.

On February 16, 2022 the Financial Stability Board (FSB) released a report regarding crypto-assets and how could reach a point where they represent a threat to global financial stability.

The report examines developments and associated vulnerabilities relating to three segments of crypto-asset markets: unbacked crypto-assets (such as bitcoin), stablecoins, and decentralized finance (DeFi) and crypto-asset trading platforms.

The study highlights a number of vulnerabilities associated with crypto-asset markets. These include increasing linkages with the regulated financial system; liquidity mismatch, credit and operational risks that make stablecoins susceptible to sudden and disruptive runs on their reserves, with the potential to spill over to short-term funding markets; the increased use of leverage in investment strategies; concentration risk of trading platforms; and the opacity and lack of regulatory oversight of the sector. The report also notes wider public policy concerns related to crypto-assets, such as low levels of investor and consumer understanding, money laundering, cyber-crime and ransomware.

The FSB warns that financial stability risks could escalate rapidly and calls for timely and pre-emptive evaluation of possible policy responses. It states that the rapid evolution and international nature of crypto-asset markets raise the potential for regulatory gaps, fragmentation or arbitrage.

In light of the growing threat to financial stability, the FSB says it intends to update previously published guidance on global stablecoin arrangements which will identify how any gaps could be addressed by existing frameworks.

The real effects of FinTech lending on SMEs: evidence from loan applications.

On February 14, 2022 the European Central Bank (ECB) released a working paper regarding the real effects of FinTech lending on SMEs, drawing evidence from loan applications.

Despite the attention that FinTech has received over the past years, the drivers and consequences of FinTech disruptive forces on financial markets remain open to debate. For example, an important open question relates to the impact that FinTech lending availability has on SMEs financing and investment policies. The paper addresses this question using a unique data set from a FinTech platform containing the universe of loan applications.

The paper finds that FinTech serves larger, high profitability SMEs, who already have access to bank credit.

At the same time, firms who access FinTech lending have lower interest coverage ratios, less unused debt, and less availability of collateral.

Therefore, these firms may switch to FinTech to finance their growth without depleting their debt capacity. Finally, firms who access the FinTech platform have relationships with banks with less liquid assets, stable funds, and capital, suggestive of a desire to reduce exposure to lower quality banks.

To study the real effects of obtaining FinTech debt, the paper restricts the analysis to firms who apply to the FinTech platform, thus comparing accepted versus rejected applicants. The paper finds that firms increase assets, employment and sales following FinTech lending.

Also, firms increase leverage, both short-term and long-term, while reducing the proportion of secured debt. Excluding FinTech loans, the increase in leverage is associated with a decrease in long-term bank debt, and an increase short-term bank debt. Finally, access to the FinTech platform allows SMEs to diversify their pool of lenders. Firms add new bank relationships and reduce their dependence on a single bank.

Overall, the findings suggest that FinTech lending allows firms to grow by expanding their debt capacity, and at the same time preserve financial flexibility and reduce their exposure to banking shocks.

EPC issued its guide on MSCTs.

On February 21, 2022 the European Payments Commission (EPC) issued its guide on Mobile Initiated SEPA (Instant) Credit Transfer Payments and Technical Interoperability.

This document provides guidance for Mobile Initiated SEPA (Instant) Credit Transfers (MSCTs) payments and their technical interoperability. It aims to reflect the current state of play and market situation at the time of writing while being brand and implementation model agnostic.

In addition, the document aims through the description of MSCT use cases to provide an insight into the main issues related to the initiation of (instant) SEPA credit transfers for different payment contexts (e.g. person-to-person, consumer-to-business). Hereby both MSCT use cases whereby payer and payee are customers of the same MSCT service provider as well as MSCT use cases whereby different MSCT service providers are involved for the payer and the payee have been considered.

Moreover, a number of “major challenges and barriers” that will need to be properly addressed to achieve full interoperability of MSCT transactions have been identified and are specifically presented in Chapter 22.

The MSCG MSCT is currently further developing the standard for QR-codes for MSCTs, covering all payment contexts and based on, with the aim to submit it through a “fast track procedure” to an International Standardisation Body, subsequent to a public consultation.

FinTech and Market Structure in the COVID-19 Pandemic: Implications for financial stability.

On March 21, 2022 the Financial Stability Board (FSB) published its report as regards to the implications of FinTech and Market structure in the COVID-19 pandemic for financial stability.

More specifically, this report examines whether the COVID-19 pandemic altered the ways that individuals and firms engage with traditional financial incumbents and innovative financial service providers. The main finding stated in the report is the accelerated trend towards digitalization of retail financial services due to the pandemic.

The report also discusses the benefits stemming from the accelerated digitalisation of financial services during the pandemic, and whether those changes may be structural or revert back to pre-pandemic levels once conditions normalise. Moreover, it considers the financial stability implications of the abovementioned digitalization trend. In addition, the report outlines the range of policy actions implemented by authorities during the pandemic that may have an impact to the role of FinTechs, BigTechs, incumbent financial institutions and the market structure. These actions relate to financial stability, competition, data privacy and governance issues.

Finally, the report stresses the significance of cooperation between supervisory and regulatory authorities, including those responsible for the oversight of the bank and non-bank sectors, and where relevant, with competition and data protection authorities.

Insurance

EIOPA published a report on the application of the IDD and a survey concerning the PEPP.

EIOPA published report on the application of the IDD.

On January 6, 2022 the European Insurance and Occupational Pensions Authority (EIOPA) published its first report on the application of the Insurance Distribution Directive (IDD), which regulates how insurance products are designed and distributed in the European Union.

Amongst others, this report examines:

- any changes in the insurance intermediaries' market structure;
- any changes in the patterns of cross-border activity;
- the improvement of quality of advice and selling methods and the impact of the IDD on insurance intermediaries which are small and medium-sized enterprises; and
- whether competent authorities are sufficiently empowered and have adequate resources to carry out their tasks.

PRIIPS review: The KID should clearly indicate existence or lack of insurance covers, guarantees or other capital protection mechanisms.

On January 3, 2022 Insurance Europe published its response to a call for evidence from the European Supervisory Authorities (ESAs) on the European Commission's upcoming review of the Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation. PRIIPs' framework review aims to lead in an overall simplification by enhancing the clarity and usefulness of the Key Information Document (KID). In more detail, the proposals made by Insurance Europe were the following:

- The PRIIPs KID should allow adequate space to explain the benefits of insurance products and prominently display the existence or lack of insurance covers, guarantees or other capital protection mechanisms;
- The exclusion of certain immediate annuities and funeral products from PRIIPs scope and the retainment of current exemptions for pension products;
- The reduction of the number of figures in the PRIIPs KID;
- The need for pre-contractual documents to be available in an electronic format by default, but on paper on request and the promotion of the use of layering and cross-referencing through hyperlinks;
- The retainment of the current approach for multi-option products (MOPs) as it allows the necessary flexibility to product manufacturers;
- The addition of some flexibility in the wording of the narratives is considered helpful;
- The review of the PRIIPs framework should not be performed in a rush to ensure that consumers receive high quality information.

Finally, Insurance Europe generally observes that the deadline set by the European Commission for the ESAs to deliver technical advice (eight weeks instead of the full length of time normally allocated for the consultation of stakeholders, which is 12 weeks) restricts the ability of respondents to explore the issues set out in the call for evidence in depth.

Monthly update of the symmetric adjustment of the equity capital charge for Solvency II - end December 2021.

On January 6, 2022 the European Insurance and Occupational Pensions Authority (EIOPA) published the technical information on the symmetric adjustment of the equity capital charge for Solvency II with reference to the end of December 2021.

EIOPA published monthly technical information for Solvency II Relevant Risk-Free Interest Rate Term Structures and parallel technical information.

On January 6, 2022 the European Insurance and Occupational Pensions Authority (EIOPA) published technical information on the relevant risk-free interest rate term structures (RFR) with reference to the end of December 2021.

Insurance

IFRS 9: EU insurers highlight need for recycling for equities measured at fair value through other comprehensive income.

On January 17, 2022 the CFO Forum and Insurance Europe jointly responded to the European Financial Reporting Advisory Group (EFRAG) and the International Accounting Standards Board (IASB) regarding the post implementation review of International Financial Reporting Standard (IFRS) 9 - financial instruments.

Europe's insurers strongly support a change to allow recycling for equities measured at fair value through other comprehensive income (FVOCI) to help ensure that profit and loss correctly reflects financial performance for all long-term investors. This change could lead to the alleviation of the existing accounting disadvantage for long-term equity investments for FVOCI users and further align IFRS 9 with the IASB's Conceptual Framework.

According to the joint response, the prohibition of recycling falsely shows that cumulative gains and losses at the time of disposal of equity instruments are not relevant while in fact, yields from capital gains have been larger historically than dividends and are therefore more relevant. Such long-term investments comprise a key element of the insurance business model.

Finally, insurers propose that a robust and well-defined reversible impairment model should be introduced to accompany recycling for FVOCI equities in order to address previous raised concerns about equity instruments' impairments under IAS 39.

Solvency II review must correct excessive capital and volatility, maintain SCR as supervisory intervention point, improve proportionality and not increase costs.

On January 18, 2022 Insurance Europe published its response to the European Commission's Better Regulation consultation on its proposals for the review of the Solvency II regulatory framework. While the Commission's proposals include a range of helpful and necessary changes, they also include elements which would undermine the improvements and/or add avoidable costs.

While Solvency II has provided many of its intended benefits, the framework requires improvements as it does not correctly reflect insurers' long-term business model. This results in excessive capital burdens and solvency volatility for European insurers. It has also created a very significant, and in some cases unnecessary, operational burden for insurers.

These deficiencies result in negative impacts for consumers, both directly through increased costs and less optimal investments and indirectly due to reduced product availability and guarantees. They also constrain the insurance sector's ability to contribute to the EU's political priorities.

The Solvency II review should:

- Correct the excessive capital requirements and artificial volatility for long-term business by aligning the measurements with the real risks faced by insurers, while keeping customers very well protected.
- Improve proportionality and avoid increasing costs and operational burden.
- Maintain the existing, well-designed supervisory ladder of intervention.

Views on EC proposals on establishment of an Insurance Recovery and Resolution Directive.

On January 19, 2022 Insurance Europe has published its response to a Better Regulation consultation conducted by the European Commission on its proposals for the establishment of an Insurance Recovery and Resolution Directive (IRRD).

The EC's proposals to implement a framework for recovery and resolution go beyond what is necessary given the extensive safeguards that are already in place to protect policyholders. The EC should strive to achieve a framework which is aligned with internationally agreed standards and should take care not to overburden insurers with unnecessary and costly requirements.

In view of the specific characteristics of insurance business and the existing instruments under Solvency II, there is no need for such an extensive IRRD.

Insurance

The future IRRD to be implemented in the EU should fully align with international standards originating from the International Association of Insurance Supervisors (IAIS). In the interest of international competitiveness, it should not goldplate these standards to the detriment of the European insurance industry.

Insurers warn IAIS against overengineering monitoring tools for assessing global liquidity trends.

On January 26, 2022 Insurance Europe published its response to a consultation of the International Association of Insurance Supervisors (IAIS) on the development of liquidity measurements. Insurance Europe recognizes the IAIS' goal of developing a liquidity measure that will serve as a tool to facilitate macroeconomic monitoring of the industry. For the global exercise of IAIS, Insurance Europe supports the implementation of the proposed Exposure Approach (EA) which it considers to be the most appropriate candidate measure for monitoring global macroeconomic liquidity risk. The design of the liquidity measure should be in line with its macroprudential objective and remain as simple as possible to avoid unnecessary regulatory burden. Efforts are being made to develop the cash flow projection (CPA) approach as it is based on a prescribed list of stress parameters that are not suitable for each individual insurer, but it cannot replace internally developed metrics used to manage liquidity and would create additional work and a parallel calculation without material benefits.

Follow-up survey on the Pan-European Personal Pension Product.

On January 27, 2022 the European Insurance and Occupational Pensions Authority (EIOPA) launched a second survey concerning the Pan-European Personal Pension Product (PEPP), following an initial study in 2021. PEPP is designed for European citizens, enabling consumers to save for their future retirement throughout their career across Europe with a safe, transparent and high-quality pension product.

The aim of this survey is to gauge and better understand the potential take-up of PEPP by eligible providers (asset managers, insurance undertakings, IORPs and credit institutions, including banks).

The responses given shall provide EIOPA with valuable insight and help the European supervisory community to prepare for an effective implementation ahead of the PEPP Regulation's entry into force on 22 March 2022.

The survey is open until 28 February 2022.

Insurers call for EDPB to clarify data protection guidelines on third-country data.

On February 1, 2022 Insurance Europe published its response to the consultation conducted by the European Data Protection Board (EDPB) on the draft guidelines on the interaction between the application of Article 3 and the provisions on international transfers under Chapter 5 of the General Data Protection Regulation (GDPR). The draft guidelines provide clarity on the basic criteria for a processing operation to qualify as a transfer of personal data to a third country; however, Insurance Europe is concerned that in one of the examples provided (when a non-EU controller sends data to an EU controller, who then sends it back without adding EU data) the guidelines do not take into account the type of data involved in the processing and the actual risks associated with the transfer. The EDPB should therefore ensure that processors established in the EU/EEA do not have to comply with the provisions on the transfer of personal data to third countries under the GDPR when transferring data originating from the controller outside the EU.

Insurers publish updated key messages on EC proposals for CSRD.

On February 9, 2022 Insurance Europe revised its key statements on the European Commission's proposed Corporate Sustainability Reporting Directive (CSRD), which the sector strongly supports.

With €10 trillion in assets under control, the insurance business is Europe's largest institutional investor. It is critical that insurers have access to and use of consistent, comparable, and machine-readable sustainability data in order to make proper investment decisions and comply with sustainability regulations. This is something that the CSRD, in conjunction with the European Single Access Point effort, can accomplish.

Insurance

For the CSRD to function as intended, a small number of basic but significant enhancements are required:

- Consolidated reporting – The ability to report at a consolidated (group) level is critical, and it should be available to public interest organizations as well.
- Allow for multiphase delivery of standards – It is critical that any delays (such as those being debated by co-legislators) do not affect data required for mandated reporting. As a result, the legislation should make it clear that the European Financial Reporting Advisory Group has the authority to set standards in stages. This will allow it to give information required for reporting under the Sustainable Finance Disclosure Regulation and the EU Taxonomy Regulation priority and minimize delays.
- Assurance – Once the standards have been in operation for several years, an evaluation should be conducted to determine whether to advance to reasonable assurance.
- An SME definition that works in the insurance industry — Because of the nature of their business, insurers' balance sheets and revenues are fundamentally different from those of other sectors. As a result, the draft text's definition of SME undertakings should be revised to reflect the peculiarities of SME insurers.

Insurers publish updated key messages on EC proposal for EU Green Bond Standard.

On February 10, 2022 Insurance Europe published an updated set of key messages on the EC's proposal for an EU Green Bond Standard (EUGBS). The insurance industry welcomes the European Commission's proposal as a framework for facilitating capital flows to green investments and transition projects that align with the European Green Deal's goals. The industry, as Europe's largest institutional investor, supports policies that encourage the growth of the green bond market.

However, several enhancements are required to assure the EUGBS's success:

- Grandfathering – EUGBS standards are subject to change. While this makes reasonable, it also means that a bond that fulfills all the requirements when it is issued risks losing its status under the existing legislation.

This, in turn, causes issues for investors who want to hold bonds to maturity, thus reducing the appeal of the EUGBS to both investors and issuers. The rule should make it clear that if a bond passes EUGBS standards and is recognized as an EU green bond, it can preserve its green bond designation independent of later changes to the EU taxonomy's screening criteria.

- Avoid oligopolistic accreditation — Limiting the number of accredited certification agencies raises issuance costs and might make green bond issuance more difficult. As a result of the accreditation standards and oversight for EUGB reviewers, situations where ESG agencies have market- and price-setting power, such as in the credit rating agency market, should be avoided.
- Flexibility pocket — Given that companies make a reference to their transition plans as required by the Corporate Sustainability Reporting Directive (CSRD) and that general "Do Not Significantly Harm" (DNSH) criteria are applied to scan the non-taxonomy aligned proceeds, the industry welcomes the added flexibility of having a “flexibility pocket”.
- Use of revenues for transition — It is critical that European green bonds provide for the funding of transitional projects for EU green bonds to support more new green projects and contribute to the achievement of the European Green Deal's goals. To do this, the EU Taxonomy must be updated to properly incorporate transitional measures.
- Alignment of the EU Taxonomy at the Project Level — The EU Taxonomy is based on criteria at the activity level, whereas bond financing is often done at the project level. Issuers will need to be able to use activity-based screening criteria to align projects under an EUGBS.

Solvency II review must remove barriers against insurers protecting and investing for customers, the economy and the EU green agenda.

On February 14, 2022 Insurance Europe published its key messages on the EC's proposals for the review of the Solvency II prudential framework and the proposed Insurance Recovery & Resolution Directive (IRRD).

Insurance

Many of the stated benefits of Solvency II have been realized, including risk-based capital requirements, extremely high-risk management and governance standards, and substantial supervisory and public reporting. However, the framework must be improved because it does not accurately represent insurers' long-term business strategy. Excessive capital costs and solvency instability emerge as a result of this. Insurers have also been burdened with a large, and in some cases needless, operational cost.

These flaws have a detrimental impact on policyholders and limit the insurance industry's capacity to contribute to EU policy initiatives. Insurers' worldwide competitiveness, natural capacity to adopt a long-term strategy to goods and investment, and ability to avoid procyclical behavior during a crisis are also harmed. In the aggregate, the proper modifications will result in a justifiable and necessary decrease in capital requirements and volatility.

The European Commission's recommendations for the Solvency II review contain several useful components that might be utilized as a foundation for future enhancements. Other features, on the other hand, would erode these gains and, in certain cases, would dramatically raise the regulatory burden. These should either not be pursued or require considerable adjustments. The European Commission's ideas for a new IRRD also go beyond what is required, necessitating considerable revisions.

The important messages are organized into four categories:

- Correcting the way long-term business is treated in order to solve excess capital and artificial volatility.
- Improving proportionality while avoiding rising expenses and administrative hassles.
- Maintaining the SCR as the first step on the supervisory intervention ladder.
- Other areas where modifications should be undertaken only if it is evident that the costs do not outweigh the benefits.

Creating value, finding focus: Global Insurance Report 2022.

On February 15, 2022 McKinsey & Company published a report, the Global Insurance Report 2022, which provides an extensive view on the opportunities and challenges insurers face. This very first edition of the report, “Creating value, finding focus”, addresses the pandemic’s effects on business, as well as emerging trends that will reshape the industry.

According to the report, the industry is on the verge of a paradigm shift – and insurers face fundamental strategic questions. Anticipating emerging trends and preparing for them is more important than ever. These strategic questions include: How can insurers create value for shareholders, improve customer experience, and attract and retain talent? How can they, individually and collectively, reframe the role and purpose of insurance in society?

To address these questions, McKinsey & Company believes the leadership teams of insurance carriers need to capitalize on nine value levers:

1. Make environmental, social, and governance (ESG) considerations a core feature of the business model.
2. Regain relevance through product innovation and coverage of new risks.
3. Enhance and personalize customer engagement and experience.
4. Engage with ecosystems and insurtechs.
5. Develop new businesses for the digital age.
6. Scale impact from data and analytics.
7. Modernize core technology platforms.
8. Address the productivity imperative.
9. Reimagine culture, diversity, and ways of working to attract and retain talent.

Insurance

Insurers raise concerns about aspects of EIOPA's climate change ORSA guidance.

On February 21, 2022 Insurance Europe responded to a consultation conducted by the European Insurance and Occupational Pensions Authority (EIOPA) on its application guidance on running climate change materiality assessments and using climate change scenarios in an insurer's Own Risk and Solvency Assessment (ORSA).

While the paper is well received by the industry, EIOPA's guideline runs the risk of becoming a de facto standard, allowing supervisors to demand justifications if insurers vary from the guidance. This is in direct conflict with the definition of an ORSA, which is the company's own analysis and should be kept that way. In addition, the advice should not impose any restrictions or prescribe an ORSA structure.

To guarantee that the ORSA stays a decision-useful tool, the time horizon of the ORSA should be aligned with the strategic and business planning time horizon. Furthermore, EIOPA's guideline is devoid of any clear references to management activities. This is most likely due to the fact that the scenarios outlined in the consultation are for the purpose of further development and information. EIOPA, on the other hand, should make this obvious.

The materiality evaluation procedure defined by EIOPA is fairly complicated, and it necessitates both a wide availability of precise exposure data of adequate quality and the execution of a framework for defining thresholds, albeit on a qualitative basis.

Finally, EIOPA's proposed scenario analysis could be burdensome for small and mid-sized insurers, as well as bigger organizations. As a result, having a simplified method for SMEs would be beneficial.

European insurers react to IPCC report: Adaptation is crucial to ensure climate resilience.

On February 28, 2022, following the publication of the Intergovernmental Panel on Climate Change (IPCC) report "Climate Change 2022: Impacts, Adaptation and Vulnerability", the Head of personal and general insurance at Insurance Europe, stated:

i. Insurance Europe fully supports the need for a very strong focus on adaptation;

ii. Strong measures are vital to mitigate climate change;

iii. Adaptation measures require actions from a wide range of stakeholders;

iv. The insurance industry has key roles to play, and insurers across European markets are already cooperating with public authorities at local, national, regional and local level.

EIOPA published monthly update of the symmetric adjustment of the equity capital charge for Solvency II – end February 2022.

On March 3, 2022 the European Insurance and Occupational Pensions Authority (EIOPA) published the technical information on the symmetric adjustment of the equity capital charge for Solvency II with reference to the end of February 2022.

EIOPA published monthly technical information for Solvency II Relevant Risk-Free Interest Rate Term Structures-end-February 2022.

On March 3, 2022 the European Insurance and Occupational Pensions Authority (EIOPA) published technical information on the relevant risk-free interest rate term structures (RFR) with reference to the end of February 2022. Compared with previous month, very low trading of Government bonds in roubles was observed, checked and confirmed by contrasted sources. This has the consequent impact on Rouble RFR curve with very big increases as of 28 February 2022.

European Insurance Social Partners published joint declaration on diversity, inclusion and non-discrimination.

On March 9, 2022 European Insurance Social Partners published joint declaration on diversity, inclusion and non-discrimination. The partners are dedicated to fostering workplace diversity, inclusiveness and non-discrimination, as well as promoting these principles across the industry through different social dialogue frameworks at all levels.

Insurance

Three major issues were addressed in the declaration:

i. Equal job opportunities;

ii. Inclusion and diversity in the workplace;

iii. Actions to combat discrimination.

EDPB guidelines on right of access must ensure proportionality and benefit data subjects.

On March 16, 2022 Insurance Europe responded to the European Data Protection Board's (EDPB) public consultation on its draft recommendations on the right of access. The draft rules are welcomed by Insurance Europe since they clarify how to manage realistic data access requests and the requirements that insurers must follow.

However, Insurance Europe is concerned that the guidelines' interpretation of the right of access may result in a more difficult handling of data access requests in some situations, with no obvious benefits for data subjects.

For example, the recommendation in the guidelines to search backup systems, which may not be readily or easily available, would be an undue hardship. Back-up data is personal information maintained purely for the purpose of recovering it in the event of a data loss event, and hence should not be covered by the right of access.

The EDPB further advises the controller to presume that the access request encompasses all personal data on the data subject, regardless of the way it is processed, and that the information provided must be customized to each request. Following an access request, for example, the data controller should not only provide a list of third parties to whom personal data has been disclosed, but also identify their activities, sub-activities, and leases.

Because of the large number of third parties involved in the pursuit of insurance operations, this information would be less useful to the data subject due to the abundance of details, and it would also require disproportionate and excessive effort on the controller's part. As a result, it is preferable for the controller to be able to use a layered approach. Controllers could start by providing broad access to the information — comparable to a privacy notice - and then ask the data subject whether more specific information is needed.

Proposed EU anti-coercion instrument must not be used as protectionist tool.

On March 14, 2022 Insurance Europe responded to the European Commission's consultation on its proposed rule for an anti-coercion tool (ACI).

Insurance Europe firmly supports the proposal's goal of empowering the EU to respond when a third nation takes or threatens to take steps to compel the EU or a member state to take a certain policy decision.

The ACI, on the other hand, must be balanced and should neither be used to achieve EU political goals, nor should it be used as a protectionist instrument. Furthermore, it is critical that the EU maintains its openness to foreign commerce and investment.

Considering this, the ACI must:

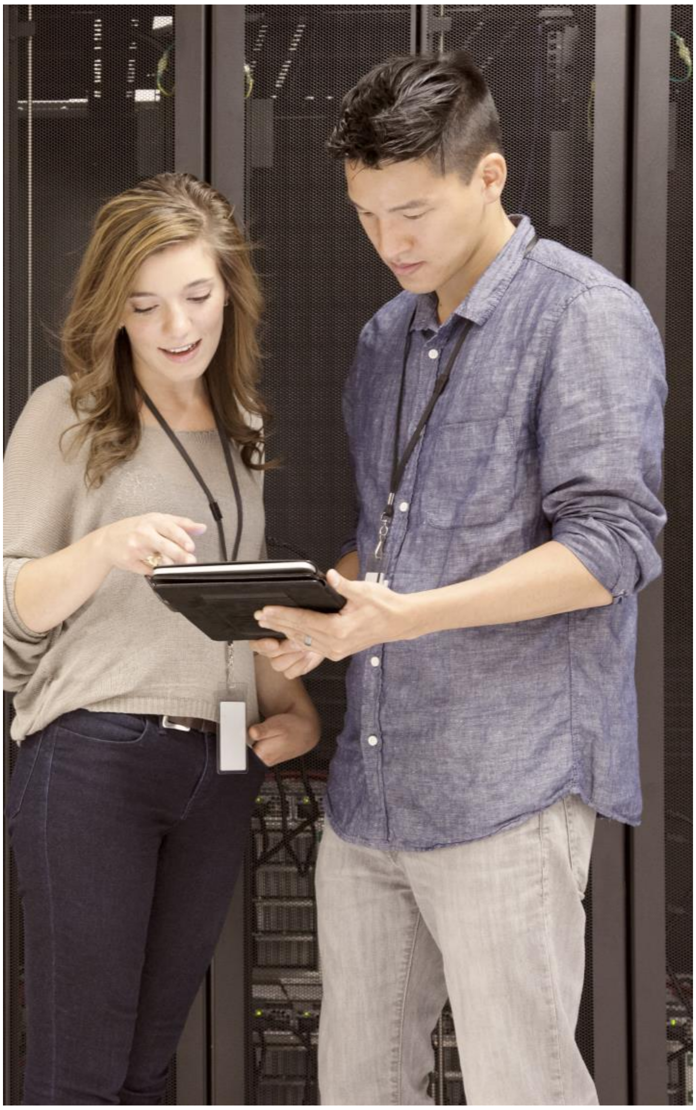
- Ensure a reasonable approach, and the sector appreciates the focus on deterrence and prevention in the legislation. In addition, the ACI should only be utilized as a last option and in the context of trade measures.
- Include a compensation system for firms harmed by coercive actions taken by foreign governments.
- Respect the EU's foreign duties and commitments, particularly WTO agreements.

EIOPA issues recommendations from EIOPA’s 2021 Insurance Stress Test.

On March 21, 2022 the European Insurance and Occupational Pensions Authority (EIOPA) issued its recommendations to supervisors and insurers based on the learnings and experience of EIOPA’s 2021 Insurance Stress Test.

EIOPA has defined a series of actions that, once completed, will result in a more resilient insurance sector in Europe, based on the findings of the stress test. The suggestions are divided into three groups.

Insurance



EIOPA emphasizes the need to reduce undertakings' reliance on transitory measures in response to vulnerabilities revealed during the stress test. National competent authorities (NCAs) should review whether the risks that produced a significant decline in (re)insurers' SCR ratios are adequately handled to address additional vulnerabilities. NCAs should also make sure that undertakings have enough resources to appropriately assess risks that aren't included by the Solvency II reporting framework.

Two further suggestions are focused on possible managerial actions. EIOPA proposes that NCAs investigate why certain insurers elected not to consider potential management actions, while for those that did, EIOPA suggests a more thorough examination of the viability and stated impact of the management actions taken. NCAs should also consider how their decision-making procedures, ability to obtain relevant data, and models will enable them to respond quickly to unfavorable events.

Finally, EIOPA made a recommendation for each individual endeavor, encouraging the NCA to conduct supervisory actions, including on-site inspections, if necessary, to improve the validation process and the quality of data received from the participant.

European insurers paid €2.8bn in claims and benefits per day in 2020; assets increase to €10.6trn.

On March 22, 2022 Insurance Europe published the latest edition of "European Insurance in Figures". Europe's insurers paid claims and benefits of €2.8 billion per day in 2020, up from €2.7 billion per day in 2019.

Assets under control in the European insurance business increased from €10.4 trillion in 2019 to €10.6 trillion in 2020.

In 2020, total premiums in Europe amounted to €1 264 billion, down 4% from 2019, and the average amount spent on insurance per capita in Europe was €2 093.

Insurance Europe also published its accompanying Key Facts booklet, and the 2020 dataset.

ESMA published guidance on appropriateness and execution-only requirements under MiFID II.

ESMA published guidance on appropriateness and execution-only requirements under MiFID II.

On January 3, 2022 the European Securities and Markets Authority (ESMA) published the final report on its guidelines on certain aspects of the MiFID II appropriateness and execution-only requirements. The guidelines cover several important aspects of the appropriateness process, including the: (i) information to be provided to clients about the purpose of the appropriateness assessment; (ii) arrangements necessary to understand clients and products; (iii) matching of clients with appropriate products and the effectiveness of warnings; and (iv) other related requirements, such as the execution-only exemption and record-keeping and controls. The report contains a feedback statement summarizing the responses received during consultation and highlighting the amendments and clarifications introduced in the final guidelines. The guidelines will apply six months after the date of the publication on ESMA's website.

ESMA consults on the review of MiFID II suitability guidelines.

On January 27, 2022 the European Securities and Markets Authority (ESMA) issued a consultation paper on draft guidelines on certain aspects of the MiFID II suitability requirements. In particular the draft guidelines build on the text of the 2018 ESMA guidelines which are now being reviewed following the adoption by the European Commission of the changes to Commission Delegated Regulation (EU) 2017/565 to integrate sustainability factors, risk and preferences into certain organizational requirements and operating conditions for investment firms.

The draft guidelines are set out in Annex III of the consultation paper. In order to facilitate readability, the paragraphs of the guidelines that have been updated in the review have been underlined by ESMA. The other non-underlined paragraphs of the guidelines have remained unchanged compared to the 2018 version.

The deadline for comments on the consultation is 27 April 2022. ESMA will consider the feedback it receives to the consultation in Q2 2022 and expects to publish a final report in Q3 2022.

ESMA supervisory briefing on firms using tied agents in the MiFID II framework.

On February 2, 2022 the European Securities and Markets Authority (ESMA) published a supervisory briefing to ensure convergence across the EU in the supervision of firms using tied agents, in particular those based outside the EU.

ESMA states that following the UK withdrawal from the EU, it has been monitoring the behavior of firms in order to understand whether their interaction with EU-based clients is done in a way that is compliant with MiFIR and MiFID II. In this context, some practices concerning investment firms using tied agents recently emerged as a potential source of circumvention of the legal framework.

The supervisory briefing sets out ESMA's and Member State competent authorities' common understanding on the supervision of firms using tied agents to provide investment services and activities. The briefing covers supervisory expectations:

- when firms appoint tied agents; and
- on firms using tied agents in their on-going activities.

ESMA's monitoring of the activities of market participants from the UK in the EU has shown that these briefings will aid the development of a convergent EU supervisory culture.

ESMA made new bond liquidity data available and published data for the SI calculations.

On February 1, 2022 the European Securities and Markets Authority (ESMA) published the latest quarterly liquidity assessment for bonds available for trading on EU trading venues. The full list of assessed bonds will be available through FITRS in the XML files with publication date from 1 February 2022 and through the Register web interface. ESMA is also publishing two completeness indicators related to bond liquidity data. The transparency requirements for bonds deemed liquid today will apply from 16 February 2022 to 15 May 2022.

ESMA also published the total number of trades and total volume over the period July to December 2021 for the purpose of the systematic internaliser (SI) calculations under MiFID II. The data is made available through the SI register in excel files and for equity, equity-like instruments and bonds also through FITRS in the XML files with publication date 1 February 2022.

ESMA launched a CSA with NCAs on MiFID II costs and charges.

On February 8, 2022 the European Securities and Markets Authority (ESMA) announced that it is launching a common supervisory action (CSA) with Member State competent authorities (NCAs) on the application of MiFID II costs and charges disclosure rules across the European Union. This action will allow ESMA and the NCAs to assess the application by firms of the MiFID II requirements on costs and charges.

The focus of the CSA will be on information provided to retail clients. NCAs will review how firms ensure that these disclosures:

- are provided to clients in a timely manner;
- are fair, clear and not misleading;
- are based on accurate data reflecting all explicit and implicit costs and charges; and
- adequately disclose inducements.

The CSA will be conducted during this year.

ESMA responded to EC's consultation on the Listing Act.

On February 15, 2022 the European Securities and Markets Authority (ESMA) published its response to the European Commission's targeted consultation on the Listing Act. The response reflects ESMA's views on the functioning of the existing regulatory framework for companies' listing on public markets, particularly in relation to prospectus, corporate governance, transparency, and market abuse rules.

ESMA believes that, while the broad regulatory framework in place regarding listing activities is strong and effective, there is some scope to streamline certain rules and find ways to carefully alleviate certain burdens for issuers, which may in turn reduce costs and enhance incentives for listing.

However, strong investor protection should remain a prerequisite in consideration of any such changes.

ESMA results of annual transparency calculations for equity and equity-like instruments.

On March 1, 2022 the European Securities and Markets Authority (ESMA) published the results of the annual transparency calculations for equity and equity-like instruments, which will apply from April 1, 2022.

The calculations made available include the:

- Liquidity assessment as per Articles 1 to 5 of Commission Delegated Regulation 2017/567 (CDR 2017/567);
- Determination of the most relevant market in terms of liquidity as per Article 4 of CDR 2017/587 (RTS 1);
- Determination of the average daily turnover relevant for the determination of the pre-trade and post-trade large in scale thresholds;
- Determination of the average value of the transactions and the related the standard market size;
- Determination of the average daily number of transactions on the most relevant market in terms of liquidity relevant for the determination of the tick-size regime.

ESMA published its assessment and recommendations on EC's MiFIR review proposal.

On March 15, 2022 the European Securities and Markets Authority (ESMA) published its assessment of the main elements on the European Commission's (EC) MiFIR review proposal.

The letter focuses on the establishment of the consolidated tape provider (CTP) but also includes elements such as equity and non-equity transparency, reporting and payment for order flow.

Also, ESMA provides its technical comments on a number of topics included in the proposal and recommends to co-legislators to:

- allow for more time for running the selection process of the CTP;

- split the selection procedure from the authorisation process;
- mandate ESMA with preparing regulatory technical standards on market data to be included by the CTP instead of an EC delegated act;
- extend the timeline for triggering the assessment for ESMA to be the CTP fall-back solution;
- simplify the non-equity deferral regime as suggested in the ESMA review report on non-equity transparency;
- ensure a level-playing filed across the Union and add a stand-alone suspension mechanism for the derivatives trading obligation; and
- replace the concept of "traded on a trading venue" to avoid gaps in reporting and transparency publications.

EU financial regulators warn consumers on the risks of crypto-assets.

On March 17, 2022 the European Supervisory Authorities (ESAs) published a warning to consumers that many crypto-assets are highly risky and speculative. The ESAs set out key steps consumers can take to ensure they make informed decisions. The warning is a result of growing consumer activity and interest in crypto-assets and the aggressive promotion of those assets and related products to the public.
The ESAs highlight that these assets are not suited for most retail consumers as an investment or as a means of payments or exchange. Consumers should be aware of the lack of recourse or protection available to them, as crypto-assets and related products and services typically fall outside existing protection under current EU financial services rules.
In relation to the current situation in Ukraine and related sanctions, the ESAs welcome the previous clarification by the Council of the European Union of the scope of the restrictive measures against Russian and Belarusian entities and individuals as regards to crypto-assets.

ESMA proposes amendments on the review of transparency requirements under MiFIR.

On March 28, 2022 the European Securities and Markets Authority (ESMA) published final reports that contained targeted amendments to Regulatory Technical Standards (RTS) 1 and 2 which specify the transparency requirements for equity and non-equity under the Markets in Financial Instruments Regulation (MiFIR).

The final report on RTS 1 (equity transparency) includes revisions to: large in scale, thresholds for exchange traded funds, the legal provisions relating to non-price forming transactions, the list of trading systems and of the pre-trade transparency requirements attached to those. Other technical amendments relate to the time of publication of transactions executed outside trading hours, the date of application of the ESMA transparency calculations and the calculation of the standard market sizes.

The final report on RTS 2 (non-equity transparency) includes revisions to: the list of trading systems, non-price forming transactions and the application dates of the transparency calculations. The ESMA also sets out limited proposals amending RTS 2 with respect to commodity derivatives. However, the majority of the proposals on commodity derivatives will be finalised in the future review of RTS 2.

The ESMA submitted both final reports to the European Commission on 28 March 2022. The Commission has three months to decide whether to endorse the proposed amendments to the RTS.

The final reports contain the first series of proposed amendments to address issues that have received broad support from stakeholders and/or are considered important in the context of establishing a consolidated tape provider. A second, and broader, review will be carried out following the MiFIR review which is currently under discussion. It will be focusing on the necessary changes of RTS 1 and 2 in consequence of the MiFIR review and also include an analysis of the proposals included in the ESMA consultation paper published in July 2021 but not covered in the final reports.

Risk Management

ECB issued macroeconomic projections, considering the Russian invasion of Ukraine.

Ratings & Credit Risk

EBA published RTS listing advanced economy countries for market risk own funds requirements.

On February 2, 2022 the European Banking Authority (EBA) published its final draft Regulatory Technical Standards (RTS) on the list of countries with an advanced economy for calculating the equity risk under the alternative standardised approach (FRTB-SA). These RTS are part of the phase 3 deliverables of the EBA roadmap for the new market and counterparty credit risk approaches.

Institutions using the alternative standardised approach to determine own funds requirements for market risk are required to compute the equity risk stemming from their trading book positions in accordance with a prescribed set of risk factors and corresponding risk weights. To determine the appropriate risk-weight, institutions are to identify whether a risk factor refers to an advanced economy or an emerging market. Risk factors mapped to the advanced economy bucket benefit from a lower risk weight compared to those mapped to the emerging market bucket.

EBA issued an Opinion on the European Commission's proposed amendments to the EBA final draft technical standards on fixed overheads requirements.

On February 11, 2022 the European Banking Authority (EBA) published an Opinion on the amendments proposed by the European Commission as regards the EBA final draft Regulatory Technical Standards (RTS) specifying the methodology for calculating the fixed overheads requirements for investment firms in the context of the implementation of the Investment Firms Regulation (IFR).

Despite having identified a substantive change in the Commission's version of the RTS, the EBA considers the amendments continue to strike a good balance between the flexibility and risk sensitivity required for the calculation of the fixed overheads requirement and the need for a harmonized regulatory framework.

EIOPA published its Supervisory Convergence Plan for 2022.

On February 9, 2022 the European Insurance and Occupational Pensions Authority (EIOPA) set out the supervisory convergence plan for 2022.

Starting the discussion with the priorities for 2021, this plan outlines the supervisory convergence priorities for the coming year as well. This year, EIOPA will continue to focus on proportionality in supervision; supervisory assessment of conduct risks; environmental, social, and governance (ESG) issues; and group supervision policy. EIOPA will also focus on supervisory convergence tools for calculation of technical provisions, conduction of benchmarking study on internal models, implementation of the new framework on digital operational resilience (DORA), and the development of a supervisory convergence tool on cyber underwriting.

ESMA warns consumers of risk of significant market corrections.

On February 15, 2022 the European Securities and Markets Authority (ESMA) published the first Trends, Risks and Vulnerabilities (TRV) Report of 2022 and continues to identify high risks of further and possibly significant, market corrections to retail and institutional investors.

More specifically according to the TVR Report, the recovery of EU financial markets has slowed down. An assessment of very high market and liquidity risks; high credit, contagion and operational risks; and elevated environmental risks is maintained while geopolitical tensions are building up in eastern Europe. Moreover, macroeconomic conditions continued to improve through 2H21, although the impact of a new wave of the pandemic on the economic outlook remained unclear. In addition, the increase in global equity prices continued in 2H21.

Risk Management

Two news-related equity sell-offs occurred during this period, showing that the possibility of a market correction remained acute. While volatility was contained, elevated price-earnings ratios pointed towards potential overvaluation.

Investment fund markets continued to grow in 2H21, with inflows in particular into equity funds. Both liquidity risk and credit risk remained elevated, while higher inflation expectations raised new concerns for duration risk. Additionally, the volumes traded on EU trading venues remained elevated, similar to those observed in the US. Market-based financing and sustainable financing continued to increase. Equity primary markets were characterised by exuberance, with initial public offerings reaching record levels while there was an increase of ESG fund assets by 9% and ESG bond markets grew by 19% in 2H21.

Crypto asset (CA) markets, set new records in 2H21, with a peak at €2.6 trillion in November, fueled by investor appetite for riskier assets and growing institutional adoption.

Basel III Monitoring Report.

On February 21, 2022 Basel Committee presented the results of the latest Basel III monitoring exercise, based on 30 June 2021 data. The report sets out the impact of the Basel III framework including the December 2017 finalisation of the Basel III reforms and the January 2019 finalisation of the market risk framework. For the sample of Group 1 banks, risk-based capital ratios remained roughly stable, but leverage ratios decreased from the prior period.

The largest decrease of 1.1 percentage points was seen in the Americas. This results from a significant increase in the leverage ratio exposure measure.

Changes in exposure measures are in part driven by the end of temporary exclusions from the leverage ratio exposure measure in the United States. Several jurisdictions had put in place such exclusions during the Covid-19 pandemic.

The final Basel III minimum requirements will be implemented by 1 January 2023 and fully phased in by 1 January 2028. The average impact of the fully phased-in final Basel III framework on the Tier 1 minimum required capital (MRC) of Group 1 banks is +3.3%, compared with a 2.9% increase at end-December 2020.

EIOPA published the results from its yearly study on the modelling of market and credit risk in internal models.

On March 10, 2022 the European Insurance and Occupational Pensions Authority (EIOPA) published the results of its yearly study on the modelling of market and credit risk in internal models.

The study focuses mainly on EUR denominated instruments, while also looking into selected GBP and USD denominated instruments as well as the corresponding foreign exchange rate indices. The analysis covers close to 100% of the EUR investments of undertakings that have an approved internal model covering market and credit risk in the EEA, which corresponds to a sample size of 23 participants from eight member states.

The report reveals moderate to significant dispersion in some model outputs. For the combined market and credit risk charge, some results show sizeable variation between undertakings, part of which is attributable to different risk management preferences.

Further analysis examined credit risk charges for sovereign bonds, equity risk, property risk and the extent to which insurers consider sustainability in their modelling approach. Dependency structures and inflation modelling were also studied.

The study was run by a joint project group of national competent authorities and EIOPA. It provides an up-to-date overview of modelling approaches and an insight into the presumed causes of dispersion in model outputs. Its findings will help further develop supervisory tools and foster common supervisory practices.

EBA publishes final draft technical standards on default probabilities and loss given default for default risk model under the internal approach for market risk.

On March 21, 2022 the European Banking Authority (EBA) published its final draft Regulatory Technical Standards (RTS) on probabilities of default (PDs) and losses given default (LGDs) for default risk model for institutions using the new Internal Model Approach (IMA) under the Fundamental Review of the Trading Book (FRTB). These draft RTS lay out the requirements for the estimation of PDs and LGDs by utilizing an institution's internal methodology or external sources.

Institutions using the IMA for the computation of own funds requirements for market risk are mandated to compute additional own funds requirement by implementing an internal default risk model for their positions in equity instruments and traded debt included in IMA trading desks.

Furthermore, the draft RTS shed light on the requirements to be met for PDs and LGDs estimation under the default risk model. More specifically it is clarified that an internal methodology used to calculate PDs and LGDs under the default risk model should meet all requirements applicable to the corresponding Internal ratings-based (IRB) approach.

Moreover, the draft RTS include the possibility for the production of conservative 'fallback' PD and LGD values by institutions (to be used only where needed). Finally, the draft RTS provide specifications regarding the requirements that external sources are to fulfil under the default risk model.

Opinion on a proposal for amendments to Regulation (EU) No 575/2013 as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor (CON/2022/11).

On March 24, 2022 the European Central Bank (ECB) issued its opinion for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 575/2013 (CRR), after receiving relevant requests from the European Parliament and the Council of the European Union, respectively. The focus of the proposed amendments revolves around requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor.

According to the ECB, the proposed amendments to the CRR are closely linked to the proposal for a Directive of the European Parliament and of the Council amending Directive 2013/36/EU (CRD), for which the ECB has received a consultation request as regards supervisory powers, sanctions, third-country branches, environmental, social and governance risk.

Risk Management

Covid-19

EBA confirmed the continued application of COVID-19 related reporting and disclosure requirements until further notice.

On January 17, 2022 the European Banking Authority (EBA) issued a public statement confirming the need to continue monitoring exposures and the credit quality of loans benefitting from various public support measures, following the uncertainty over COVID-19 developments. To facilitate such monitoring, the guidelines on the reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis continue to apply until further notice.

BCBS newsletter on Covid-19 related credit risk issues.

On March 2, 2022 the Basel Committee on Banking Supervision (BCBS) issued a newsletter to provide greater detail on its internal discussions regarding Covid-19 related credit risk issues. The Committee believes the information provided may be useful for both supervisors and banks in their day-to-day activities.

The Covid-19 pandemic has increased the challenges banks face when assessing the credit quality of borrowers. Supervisors have observed a range of policies and practices across banks' credit risk governance and credit risk models.

The Committee intends to continue monitoring bank practices in assessing credit risk and asset quality, and setting provisions, especially as the effects of support measures continue to evolve.

Credit risk has been a key area of focus for the BCBS following the onset of the Covid-19 pandemic.

Credit risk is the largest risk faced by most banks. Poor credit risk management and failure to identify deteriorating credit quality in a timely manner, may lead to higher future bank losses and undermine confidence in the banking sector.

The Covid-19 pandemic has made assessing the credit quality of borrowers more challenging due to the atypical nature of the crisis and unprecedented public sector support. The Committee has been monitoring banks' asset quality and sharing supervisory observations on banks' (i) credit risk governance; and (ii) credit risk modelling policies and practices.

Recovery/ Resolutions

EBA published guidelines for institutions and resolution authorities on improving banks' resolvability and consults on transferability.

On January 13, 2022 the European Banking Authority (EBA) published its final guidelines for institutions and resolution authorities on improving banks' resolvability. These guidelines represent a significant step in complementing the EU legal framework in the field of resolution based on international standards and leveraging on EU best practices. The EBA also launched its consultation paper on guidelines for institutions and resolution authorities on transferability of parts of or a whole bank in the context of resolution to complement the resolvability assessment for transfer strategies. In particular, the guidelines specify separability in the context of the application of transfer tools. The consultation runs until 15 April 2022.

Opinion of the ECB on a proposal to amend Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms with respect to resolution (CON/2022/3).

On January 13, 2022 the European Central Bank (ECB) published its opinion on a proposal to amend Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms with respect to resolution (CON/2022/3).

The ECB acknowledged that the proposed regulation consists of technical adjustments with the aim of operationalizing substantive legislative decisions implemented by the latest amendments to Directive 2014/59/EU of the European Parliament and of the Council (BRRD), assessed in the ECB's opinion on revisions to the Union crisis management framework.

The ECB supports the proposed regulation, which ensures better alignment between the provisions of Regulation (EU) No 575/2013 of the European Parliament and of the Council and the provisions of the BRRD, following the entry into force of the revised framework on Total Loss-Absorbing Capacity (TLAC) and the minimum requirement for own funds and eligible liabilities.

The ECB further supports the proposed regulation in as much as it ensures better alignment of the regulatory treatment of global systemically important institutions (G-SIIs) with a multiple point of entry (MPE) resolution strategy, including groups with subsidiaries registered in third countries, with the treatment outlined in the TLAC standard.

ESMA published final reports on CCP recovery regime.

On January 31, 2022 the European Securities and Markets Authority (ESMA) published its final reports on the central counterparties (CCPs) recovery regime, as mandated under the CCP Recovery and Resolution Regulation (CCPRRR).

The seven final reports cover proposals for Regulatory Technical Standards (RTSs) on the methodology for calculation and maintenance of the additional amount of pre-funded dedicated own resources, on the factors to be considered by the competent authority and the supervisory college when assessing the recovery plan and on the recompense mechanism for non-defaulting clearing members. It also covers guidelines on the consistent application of the triggers for the use of Early Intervention Measures, on the CCP's recovery plan indicators and scenarios and on the restrictions of dividends in case of a significant non-default event.

FSB Chair outlines work priorities for 2022 to G20 Finance Ministers and Central Bank Governors.

On February 17, 2022 the Financial Stability Board published a letter from its Chair, Klaas Knot, to G20 Finance Ministers and Central Bank Governors ahead of their 17-18 February meeting.

The letter notes that the COVID-19 pandemic continues to weigh on the global economy. Nevertheless, the global financial system has been able to support the recovery to date, thanks to a determined policy response to the pandemic and the greater resilience of banks and market infrastructures.

The letter highlights the current challenges of promoting global financial resilience during the transition to a post-pandemic world (e.g. heightened economic uncertainty), which may significantly affect interest rates and asset prices.

It is also noted that digital innovation and the demand for more sustainable and innovative forms of finance may also give rise to vulnerabilities which must be addressed if their benefits are to be fully realised.

According to the letter, the FSB's policy work to promote global financial resilience includes the support of financial market adjustment to a post-COVID world, reinforcing financial system resilience in light of the COVID experience and harnessing the benefits of digitalisation while containing its risks including implementing the G20 Cross-Border Payments Roadmap and its associated quantitative targets. Finally, financial risks from climate change will be addressed with a focus on progressing the FSB's roadmap for addressing climate-related financial risks.

Risk-Weighted Assets

EBA published annual assessment of banks' internal approaches for the calculation of capital requirements.

On February 22, 2022 the European Banking Authority (EBA) published its reports on the annual market and credit risk benchmarking exercises.

These exercises monitor the consistency of risk weighted assets (RWAs) across all EU institutions authorized to use internal approaches for the calculation of capital requirements. They contribute to the work the EBA is conducting for improving the regulatory framework, increase convergence of supervisory practices and restore confidence in internal models. For credit risk internal models, the EBA has followed its roadmap for the implementation of the regulatory review of internal models.

The report on the credit risk exercise provides an in-depth analysis of the observed and potential impact of the COVID-19 pandemic.

It includes theoretical analysis on where potential impact is likely to be observed and empirical analysis on the development of average RWs, probabilities of default and default rates between 31 December 2019 and 31 December 2020 for the different benchmarking portfolios.

The report on the market risk exercise presents the results of last year's supervisory benchmarking and summarizes the conclusions drawn from a hypothetical portfolio exercise conducted by the EBA during 2020/21. The exercise considered the same instruments applied in 2019 and 2020, which are mostly plain vanilla.

The exercises should be read in parallel with other efforts to reduce undue level of variability. In particular, the EBA roadmap to repair internal rating-based (IRB) models is a key component of the review of the IRB framework, along with the enhancements brought by the final Basel III framework assessed by the EBA in a set of recommendations as an answer to the call for advice of the European Commission.

EBA updates methodology for assessing third country equivalence of regulatory and supervisory frameworks.

On February 21, 2022 the European Banking Authority (EBA) published updated questionnaires used for the assessment of regulatory and supervisory frameworks of third countries, to reflect certain provisions recently introduced by revised prudential regulation in the EU.

The Capital Requirements Regulation foresees that certain exposures to entities located in non-EU countries can be treated, in terms of risk-weights, as exposures in EU Member States, provided that the European Commission adopts an Implementing Decision determining that the country's prudential requirements are equivalent to the EU ones.

EBA updates list of institutions involved in the 2022 supervisory benchmarking exercise.

On March 23, 2022, the European Banking Authority (EBA) published an updated list of institutions with reporting obligations in the context of the 2022 EU supervisory benchmarking exercise.

The 2022 benchmarking exercise will be conducted by EBA on a sample of 115 banks from 16 countries across the EU and the European Economic Area leveraging on established data collection procedures and formats of regular supervisory reporting.

This exercise assists Competent Authorities in the quality assessment of internal approaches employed to calculate risk weighted exposure amounts.

Other General aspects

EBA amended standards on currencies with constraints on the availability of liquid assets.

On January 26, 2022 the European Banking Authority (EBA) published its final Report on amendments to its Implementing Technical Standards (ITS) on currencies with constraints on the availability of liquid assets in the context of the liquidity coverage ratio (LCR).

According to Article 419 of Regulation (EU) No 575/2013 of the European Parliament and of the Council ('CRR') and for the purpose of calculating the LCR a number of derogations applied to currencies facing constraints regarding the availability of liquid assets is specified.

Furthermore, an additional derogation was added as part of the Risk Reduction Measures (RRM) package adopted by the European legislators. The aim of the derogations' application is to address inherent difficulties of institutions in meeting their liquidity coverage requirements for currencies in which the resultant need for liquid assets and the holdings of those assets by other market participants cannot be reduced.

The EBA has been tasked with amending the existing regulatory technical standards (Commission Delegated Regulation (EU) 2016/709 of 26 January 2016), with a concomitant need to update the corresponding implementing technical standards (Commission Implementing Regulation (EU) 2015/2344 of 15 December 2015) on the effective list of currencies with constraints.

According to the Report, EBA's proposal is to amend Commission Implementing Regulation (EU) 2015/2344 of 15 December 2015 by removing the NOK from this list.

The reasoning behind this proposal stems from the fact that the supply and demand for Norwegian Krone (NOK) denominated liquid assets has changed.

Risk Management

More specifically, there is no longer a shortage in the supply of liquid assets in the NOK currency and thus derogations are no longer deemed necessary.

A new standard for audits of less complex entities.

The International Auditing and Assurance Standards Board (IAASB) committed in addressing the complexity, understandability, scalability and proportionality in the International Standards on Auditing (ISAs), and the specific needs of Less Complex Entities (LCE). This commitment was based on the feedback from the IAASB's 2019 Discussion Paper, Audits of Less Complex Entities: Exploring Options to Address the Challenges in Applying the ISAs and other input from outreach.

For this reason, the IAASB developed the Exposure Draft of proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ED-ISA for LCE) which was approved in June 2021.

This new standard, based on the underlying concepts from ISAs, is designed specifically for audits of LCE and was developed to be understandable, clear and concise. The aim of this standard is to reduce the risk of jurisdictional divergence by driving consistency and comparability globally. Sections 4 and 5 include the Board's consideration of issues, deliberations and position with respect to key areas in developing the proposed standard.

The consultation phase of ED-ISA for LCE by the IAASB ended on January 31, 2022.

IAASB Quality Management Standards.

The International Auditing and Assurance Standards Board (IAASB) introduced three new and revised standards that strengthen and modernize the audit firm's approach to quality management. Through the standards, the IAASB is addressing an increasingly complex and evolving audit ecosystem.

The standards provide directions to audit firms on how to improve the robustness of their monitoring and remediation, improve the robustness of engagement quality reviews and embed quality into their corporate culture.

The standards are effective December 15, 2022. They replace the IAASB's current standards, International Standard on Quality Control 1 and International Standard on Auditing 220.

Some of the Key changes to the standards include an increased focus the continual flow of information and appropriate communication internally and externally, clarifications of requirements for a more robust engagement quality review and the modernization of standards to address technology, networks, and the use of external service providers.

Conforming and consequential amendments to the IAASB's other standards as a result of the new and revised Quality Management Standards.

On January 19, 2022 the International Auditing and Assurance Standards Board (IAASB) issued Conforming and Consequential Amendments to the IAASB's Other Standards as a Result of the New and Revised Quality Management Standards.

These amendments were issued in response to the new quality management standards.

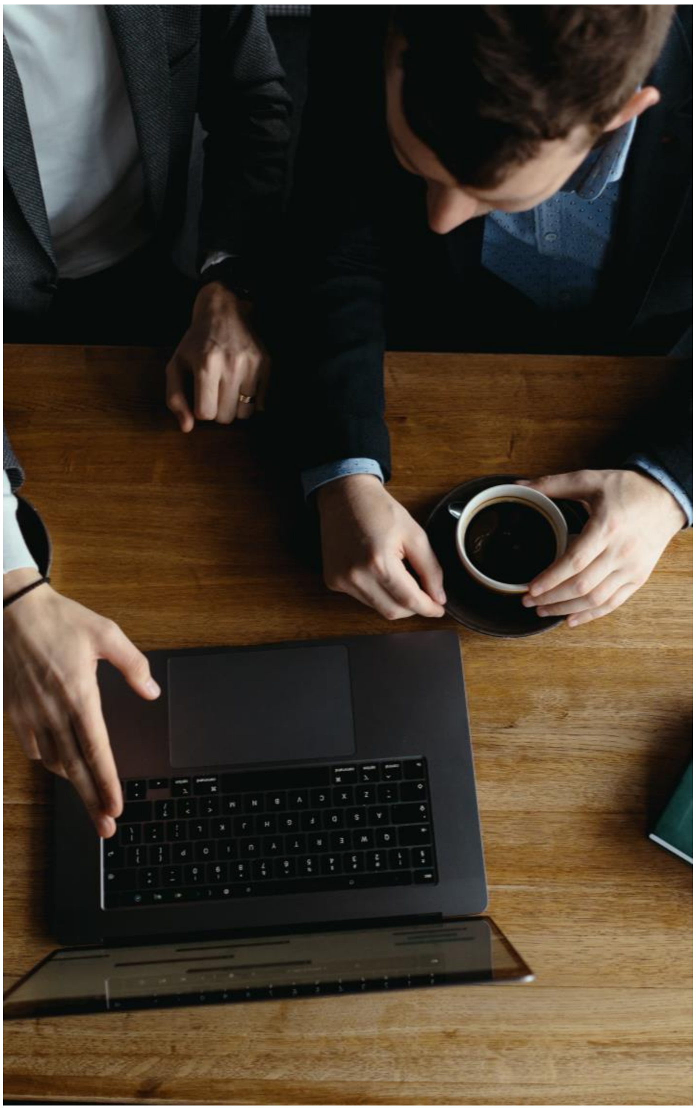
More specifically, the amendments address any actual or perceived inconsistencies between the quality management standards and the full suite of IAASB standards to ensure that all the standards operate in conjunction with each other without conflict.

EBA published final guidelines on the limited network exclusion under the PSD2.

On February 24, 2022 the European Banking Authority (EBA) published its final guidelines on the limited network exclusion under the Payment Service Directive (PSD2). These guidelines clarify how national competent authorities should assess whether a network of service providers or a range of goods and services qualify as "limited" and are, therefore, not subject to the Directive. Payment instruments that might benefit from this exclusion include store cards, fuel cards, public transport cards, and meal vouchers. The guidelines aim at addressing significant inconsistencies on how this exclusion has in the past been applied across the EU, contributing to the Single Market for payment services in the EU and ensuring transparency for supervisors and customers.

The guidelines will apply as of 1 June 2022 with an additional 3-month transitional period for issuers that already benefit from the exclusion to submit a new notification to their national competent authority.

Risk Management



ECB issuance of macroeconomic projections, considering the invasion.

On March 10, 2022 the European Central Bank (ECB) issued macroeconomic projections, considering the Russian invasion of Ukraine.

Macroeconomic projections aim to predict and understand the future state of the economy on a broad scale. They include information related to economic growth, inflation, wages, unemployment and trade. Eurosystem and ECB staff produce macroeconomic projections that cover the outlook for the euro area and the wider global economy. These contribute to the ECB Governing Council's assessment of economic developments and risks to price stability.

ECB: Letter to CEOs regarding leveraged transactions.

On March 28, 2022 the European Central Bank (ECB) published a letter that it had sent to CEOs of significant institutions that specifies its expectations regarding leveraged transactions. The letter includes an annex setting out the ECB's observations on the overall leveraged transaction risk appetite framework design and functioning. The ECB expects all significant institutions that engage in leveraged transactions to take note of its letter and take steps to comply with the expectations set out in it.

Annual Report (2021) of ECB operations.

On March 31, 2022 the European Central Bank (ECB) published its 2021 Annual Report. In her foreword to the Annual Report Christine Lagarde, President of the ECB, mentions that the COVID-19 pandemic has led to more fundamental changes in the landscape in which banks operate. She states that digitisation has accelerated and the urgency to tackle climate change has increased. Long-standing issues related to weak profitability and overcapacity could limit the ability of some banks to adapt and stay competitive in facing the digital and green transitions. In response to these challenges, banks need to improve their cost efficiency and refocus their business models towards resilience and longer-term value creation including making further progress in embedding climate-related and environmental risks into their existing strategies and risk management processes. Banking Union also needs to be completed so that a diversified financial sector helps unlock a large pool of private investment in Europe.

Other

EC endorsed positive preliminary assessment of Greece's request for €3.6 billion disbursement under RRF.

EPC launched the public consultation on the [Instant] Euro One-Leg Out Credit Transfer Arrangement Rulebook.

On January 18, 2022 the European Payments Council (EPC) launched a public consultation on its proposed [Instant] Euro One-Leg Out Credit Transfer ([Inst] Euro OCT) Arrangement Rulebook and the proposed Maximum Amount for Instant Euro OCT Instructions under the [Inst] Euro OCT Arrangement Rulebook.

Under the proposed Arrangement, a Euro One-Leg Out Credit Transfer (Euro OCT) is an electronic payment instrument for conducting international euro credit transfer payments between an account held at a Financial Institution (FI) established in and/or only licensed to operate in a non-SEPA country or territory and a payment account held at a Payment Service Provider (PSP) established in and/or licensed to operate in a country or territory included in the SEPA geographical scope.

Furthermore, the adherence to the Arrangement is optional for SEPA-based PSPs. In addition, both incoming and outgoing (Instant) Euro OCTs, from the perspective of a Payee and a Payer holding a payment account at a SEPA-based PSP, are supported by the Arrangement. A successful launch and operation of the Arrangement would rely on a sufficient number of adhering SEPA-based PSPs in the different roles of the Arrangement.

In Q2 of 2022, the EPC will review the feedback received from this public consultation and consider concrete next steps for the proposed [Inst] Euro OCT Arrangement.

EBA consults on draft guidelines on remuneration and gender pay gap benchmarking exercise for banks and investment firms.

On January 21, 2022 the European Banking Authority (EBA) launched a consultation to update its Guidelines on the remuneration benchmarking exercise under the Capital Requirements Directive (CRD).

Additional requirements are incorporated in the review concerning the application of derogations to the requirement to pay out a part of variable remuneration in instruments and under deferral arrangements and the benchmarking of the gender pay gap. Moreover, the review provides guidance on how to harmonize the benchmarking of approvals granted by shareholders. For investment firms a specific set of guidelines is provided. The consultation runs until 21 March 2022.

The changes made to disclosure and remuneration requirements in addition to the newly introduced remuneration framework for investment firms are reflected by the additional revisions to the guidelines for investment firms and institutions. The approach taken in the draft guidelines for investment firms is consistent with the corresponding guidelines for banks. Furthermore, data collection templates were revised considering the European Commission's Implementing Regulation on disclosures.

The guidelines aim to ensure that the gender pay gap benchmarking covers a representative sample of institutions. Specific templates for the benchmarking of the gender pay gap have also been introduced.

EBA consults on updates to its guidelines on data collection exercises regarding high earners.

On January 21, 2022 the European Banking Authority (EBA) launched a consultation on updates to its Guidelines on the data collection exercise on high earners (revised in 2014). The amended remuneration framework laid down in the Capital Requirements Directive (CRDV), including the introduction of derogations to pay out a part of the variable remuneration in instruments and under deferral arrangements, is reflected by the review of the data collection exercises. The necessity for the guidelines update stems from the specific remuneration regime laid down in the Investment Firms Directive (IFD) and Investment Firms Regulation (IFR). The consultation runs until 21 March 2022.

Other

Competent authorities are required by the CRD and the IFD to collect information (e.g. job responsibilities, bonus and pension contribution) on the number of natural persons, per institution /investment firm, whose remuneration is EUR 1 million or more per financial year, in pay brackets of EUR 1 million.

The new reporting format included in the revised guidelines will be used for the annual collection of data regarding high earners, starting for the financial year that ends in 2022.

ESMA becomes supervisor of EU DRSPs.

On February 7, 2022 the European Securities and Markets Authority (ESMA) announced, that it assumed, on 1 January 2022, its mandate as direct supervisor of the largest EU Data Reporting Service Providers (DRSPs). In particular, ESMA noted that its new role gives it direct authorisation and supervisory powers over DRSPs, except for those entities that, due to more limited market impact, will continue to be supervised by their Member State authority. In addition, ESMA outlined that supervisory responsibility for DRSPs was transferred from national competent authorities (NCAs) to ESMA due to the cross-border dimension of data handling, the aim of achieving economies of scale, and facilitating data quality convergence for all market participants.

Furthermore, ESMA noted that it aims to ensure the effective and consistent application of a data-driven, risk-based, and outcome focused supervisory framework for the DRSPs under its supervision and will continue actively engaging with the supervised entities, NCAs, and data users to ensure a smooth and orderly functioning of EU financial markets. Moreover, ESMA stated that to support its new supervisory task, it has developed an IT system based on Big Data technologies that will facilitate processing, storage, and supervisory analysis of large volumes of Markets in Financial Instruments transaction data. Lastly, ESMA noted that the 2022 Annual Work Programme outlines its supervision priorities for 2022 under the DRSPs' supervision mandate.

EC published enhanced surveillance report for Greece.

On February 23, 2022 the European Commission (EC) published the thirteenth enhanced surveillance report for Greece.

The report is prepared on the basis of the enhanced surveillance framework which is constructed to ensure continued support for the delivery of Greece's reform commitments.

The report summarizes that Greece has proceeded with all necessary actions to achieve its specific commitments, despite the difficult circumstances caused by the pandemic. Specific commitments were delivered by the authorities such as the completion of the administrative reorganization of the Single Pension Fund and the simplification of investment licensing in the agreed sectors enhancement.

The European institutions welcome the authorities' close and constructive engagement in all areas and encourage them to keep up the momentum and strengthen the efforts to remedy the delays partly caused by the pandemic.

NextGenerationEU: EC endorsed positive preliminary assessment of Greece's request for €3.6 billion disbursement under RRF.

On February 28, 2022 the European Commission (EC) endorsed a positive preliminary assessment of Greece's payment request for €3.6 billion (€1.7 billion in grants and €1.9 billion in loans), under the Recovery and Resilience Facility (RRF).

Greece submitted the payment request after demonstrating detailed and comprehensive evidence on the achievement of the 15 milestones selected in the Council Implementing Decision for the first instalment. The milestones cover reforms and investments in several areas (e.g. energy efficiency, electric mobility, waste management, labour market, healthcare, public transport). The fulfillment of the milestones shows significant progress made in the implementation of Greece's recovery and resilience plan.

The Greek recovery and resilience plan is worth €30.50 billion (€17.77 billion in grants and €12.73 billion in loans) and includes a wide range of reform measures and investments in four thematic pillars:

1. Green transition;
2. Digital transformation;
3. Employment, skills and social cohesion;
4. Private investment and transformation of the economy.

Other

Payments under the RRF are performance-based and contingent on Member States implementing the investments and reforms outlined in their respective recovery and resilience plans.

NextGenerationEU: First annual report on the RRF finds implementation is well underway.

On March 1, 2022 the European Commission (EC) adopted its first annual report on the implementation of the Recovery and Resilience Facility (RRF), providing up to €723.8 billion (in current prices) of grants and loans to Member States in an effort to show support for transformative investments and reforms that will help the EU emerge stronger from the COVID-19 pandemic.

The report highlights the progress made in the implementation of the Facility, from the adoption of the RRF Regulation (02/2021) to the disbursement of the first regular payment (12/2021). Moreover, it confirms that the implementation of the RRF is well underway.

In addition, regarding the 22 recovery and resilience plans that have been adopted so far, the report details numerous examples of the investments and reforms financed by the RRF. These examples present concrete measures that are contributing to the six policy pillars defined in the RRF Regulation and thus the report offers significant insight into the impact and unprecedented scale of such measures being implemented across the EU.

State aid: Commission opens in-depth investigation into Greek support measures in favour of ELTA.

On March 10, 2022 the European Commission (EC) opened an in-depth investigation to assess whether certain Greek support measures in favour of postal operator Hellenic Post (ELTA), the largest provider of postal services in Greece, conform with EU State aid rules.

This investigation was incited by a certain complaint received by the EC on May 2020 regarding certain support measures given in favor of the abovementioned company.

More specifically:

- A €149 million payment to ELTA in December 2020 by the Greek State as additional USO compensation for the period 2013 – 2018;
- A €100 million capital injection into ELTA's share capital by Greece in December 2020; and
- A Value-Added-Tax ('VAT') exemption to all postal services of ELTA since 2000.

Based on the above, the EC started having doubts whether ELTA was legally entitled to additional Universal Service Obligation (USO) compensation for the 2013-2018 period, as it had already received an annual compensation of €15 million for the same period. In addition, there is also doubt on whether the capital injection in favour of ELTA has been granted on market terms. Finally, as far as the VAT exemption is concerned, EC has its doubts on whether such a measure can be qualified as aid.

EU cohesion policy: More than 1.5 million EU-funded projects accessible in new public platform.

On March 17, 2022 the Commission launched 'Kohesio', a public online platform gathering all the information on over 1.5 million projects in all 27 Member States financed by the European Regional Development Fund (ERDF), the Cohesion Fund and the European Social Fund (ESF) since 2014. It is the first time that such a comprehensive platform of project data, that will be available in all EU languages, is created and made available to all. Setting it up required a close cooperation with managing authorities in the different Member States or regions, as cohesion projects are managed by national and regional authorities.

The Kohesio platform makes the information held by managing authorities available to all. With an impressive wealth of data, it shows the crucial contribution of cohesion policy to the economic, territorial and social cohesion of the EU's regions, as well as to the green and digital transitions, through the implementation and funding of a wide variety of policy priorities in the Member States. It also encourages the identification and exchanges of best practices between different regions and Member States.

ECB clarifies common approach to policy choices offered by European banking rules.

On March 28, 2022 the European Central Bank (ECB) updated its policies outlining how it exercises options and discretions when supervising banks, following a public consultation which ended on 30 August 2021.

Clarifying how the ECB exercises the options and discretions introduced by recent changes to EU banking rules ensures consistent and transparent implementation of the rules applied to banks. Harmonizing these policies throughout the banking union creates a level playing field and promotes a more integrated European banking market.

European banking rules grant supervisors the authority to exercise more than 100 options and discretions when supervising banks. Such options and discretions led to national supervisors taking different approaches before ECB Banking Supervision developed its policy framework in 2016.

The updated policies relate to many aspects of day-to-day supervision. They include how to calculate the net stable funding ratio, for instance how banks should treat off-balance sheet exposures for which the regulation does not already provide a dedicated treatment, how the ECB assesses applications from banks seeking to reduce their capital or to exempt third-country intragroup exposures from the large exposure limits, and what documentation banks need for such applications.

NextGenerationEU: European Commission completes the second successful bond issuance in 2022.

On March 22, 2022 the European Commission raised a further €10 billion in NextGenerationEU funds through its second bond syndication of 2022. The 10-year bond, due on 06 July 2032, brings the total financing raised under the program to €91 billion. This placement will continue to support Europe's economic recovery under the Recovery and Resilience Facility and the other EU-budget programs funded through NextGenerationEU.

As laid out in its issuance calendar for the first half of the year, the Commission intends to execute a further three more syndicated transactions for NextGenerationEU by June 2022. Syndicated transactions will be complemented by further EU-bond auctions. Short-term funding will also continue to be raised in two EU-bills auctions per month, giving the Commission additional flexibility to meet its payment needs.

NextGenerationEU is a temporary instrument bringing more than €800 billion in support to Europe's recovery from the coronavirus pandemic and building a greener, more digital and more resilient Europe. To raise the necessary funding under the best possible market conditions, the Commission is implementing a diversified funding strategy. This strategy combines the use of different funding techniques with an open and transparent communication to market participants.

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

Appendix: Glossary

IFRS

International Financial Reporting Standards

ITS

Implementing Technical Standards

IT

Information Technology

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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