

The Financial Services Insider

Risk & Regulatory Insights

Q4 2024



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01 Highlights

Highlights

The 4th quarter of 2024 was marked by several regulatory developments in various areas such as AML, ESG, Fintech, Risk Management, Insurance, MIFID II and Capital Markets.

Anti-Money Laundering (AML)

EBA issued final guidance on internal policies, procedures and controls to ensure the implementation of Union and national sanctions.

Capital Markets

ESMA published first consolidated report on sanctions. Furthermore, ECB published the results of the September 2024 SESFOD.

ESG

ESAs published 2024 joint report on principal adverse impacts disclosures under the SFRD. Furthermore, ESMA published a consultation on proposals to digitalize sustainability and financial disclosures.

Fintech

ESAs i) responded to the EC's rejection of the draft ITS on the register of information under DORA and ii) provided guidelines to facilitate consistency in the regulatory classification of crypto-assets by industry and supervisors. Moreover, ESMA released last policy documents to get ready for MiCAR while EBA provided further guidance on reporting requirements under the MiCAR.



Highlights

Insurance

ESMA published a report on first application of IFRS 17 Insurance Contracts. Also, EIOPA and ECB proposed European approach to reduce economic impact of natural catastrophes. Furthermore, EIOPA:

- opened first batch of consultations on technical standards after Solvency II Review
- released its opinion on the scope of DORA in light of the review of the Solvency II framework
- published a consultation paper regarding the development of an awareness tool
- published the results of its 2024 Insurance Stress Test
- revoked previous guidelines to avoid duplications and overlaps with DORA

MIFID II

ESMA launched new consultations under the MiFIR review.

Other

EC approved €150 million Greek State aid measure funded under RRF to support construction of carbon storage facility in Prinos. Moreover, EBA published its Work Programme for 2025.

Risk Management

ECB published the results of its SREP for 2024 and its supervisory priorities for 2025-27 while BCBS published final guidelines for counterparty credit risk management. Furthermore, EBA published:

- its response to the EC on the eligibility and use of credit insurance
- a Handbook on independent valuers for resolution purposes
- its third mandatory Basel III monitoring report
- final standards on the specification of long and short positions under the derogations for market and counterparty risks
- a follow-up to the 2022 Peer Review report on the supervision of the management of NPEs by credit institutions
- methodology, draft templates and key milestones for its 2025 EU-wide stress test
- a report on liquidity measures



02 Risk & Regulatory Insights

Anti-Money Laundering (AML)

EBA issued final guidance on internal policies, procedures and controls to ensure the implementation of Union and national sanctions.

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On November 14, 2024 the European Banking Authority (EBA) published two sets of final guidelines that, for the first time, set common EU standards on the governance arrangements and the policies, procedures and controls financial institutions should have in place to be able to comply with Union and national restrictive measures.

The first set of guidelines is addressed to all institutions within the EBA's supervisory remit. They include provisions that are necessary to ensure that financial institutions' governance and risk management systems are sound and sufficient to address the risk that they might breach or evade restrictive measures.

The second set of guidelines is specific to payment service providers (PSPs) and crypto-asset service providers (CASPs) and specify what PSPs and CASPs should do to be able to comply with restrictive measures when performing transfers of funds or crypto-assets.



Capital Markets

ESMA published first consolidated report on sanctions.

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On October 11, 2024 the European Securities and Markets Authority (ESMA) published its first consolidated report on sanctions and measures imposed by the National Competent Authorities (NCAs) in Member States in 2023. In 2023, more than 970 administrative sanctions and measures were imposed across EU Member States in financial sectors under ESMA's remit. The aggregated value of administrative fines amounted to more than 71 million EUR. The highest amounts of administrative fines were imposed under the Market Abuse Regulation (MAR) and the Markets in Financial Instruments Directive II (MiFID II). Overall, the report highlights that there is still room for more convergence between NCAs in the exercise of their sanctioning powers.

Results of the September 2024 SESFOD.

On October 18, 2024 the European Central Bank (ECB) published the results of the September 2024 Survey on credit terms and conditions in euro-denominated securities financing and over-the-counter derivatives markets (SESFOD). According to the survey:

- Overall credit terms and conditions eased somewhat between June 2024 and August 2024 on account of improved general market liquidity
- Increase in demand for funding secured against many collateral types
- Increase in initial margin requirements for most types of derivative



ESG

ESAs published 2024 joint report on principal adverse impacts disclosures under the SFRD.

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On October 30, 2024 the European Supervisory Authorities (ESAs) issued a joint report that assesses both entity and product-level Principal Adverse Impact (PAI) disclosures under the Sustainable Finance Disclosure Regulation (SFDR). The report follows a survey from Member State competent authorities (NCAs) on the current state of entity-level and product level voluntary PAI disclosures under the SFDR. As with previous years, the survey covered the assessment of the disclosures by financial market participants choosing to explain why they did not consider adverse impacts of investment decisions on sustainability factors, as well as disclosures of PAI consideration for financial products.

ESMA consults on proposals to digitalize sustainability and financial disclosures.

On December 13, 2024 the European Securities and Markets Authority (ESMA) published a consultation paper seeking stakeholders' views on how the European Single Electronic Format (ESEF) can be applied to sustainability reporting. The proposals also aim to ease the burden associated with financial reporting. Interested stakeholders are invited to submit their feedback by 31 March 2025.



Fintech

ESMA released last policy documents to get ready for MiCAR.

ESAs responded to the EC's rejection of the draft ITS on the register of information under DORA.

On October 15, 2024 the European Supervisory Authorities (EBA, EIOPA and ESMA – the ESAs) issued an Opinion on the European Commission's (EC) rejection of the draft Implementing Technical Standards (ITS) on the registers of information under the Digital Operational Resilience Act (DORA). The ESAs raise concerns over the impacts and practicalities of the proposed EC changes to the draft ITS on the registers of information in relation to financial entities' contractual arrangements with ICT third-party service providers.

ESAs provide guidelines to facilitate consistency in the regulatory classification of crypto-assets by industry and supervisors.

On December 10, 2024 the three European Supervisory Authorities (EBA, EIOPA and ESMA - the ESAs) published joint guidelines intended to facilitate consistency in the regulatory classification of crypto-assets under MiCAR (Markets in Crypto-Assets Regulation). The guidelines include a standardised test to promote a common approach to classification as well as templates market participants should use when communicating to supervisors the regulatory classification of a crypto-asset.

ESMA released last policy documents to get ready for MiCAR.

On December 17, 2024 the European Securities and Markets Authority (ESMA) published the last package of final reports containing regulatory technical standards and guidelines ahead of the full entry into application of the Markets in Crypto Assets Regulation (MiCAR). The package contains:

- Regulatory Technical Standards on market abuse
- Guidelines on reverse solicitation
- Guidelines on suitability
- Guidelines on crypto-asset transfer services
- Guidelines on qualification of crypto-assets as financial instruments
- Guidelines on the maintenance of systems and security access protocols

EBA provides further guidance on reporting requirements under the MiCAR.

On December 18, 2024 the European Banking Authority (EBA) published its final guidelines on reporting requirements under the Markets in Crypto-assets Regulation (MiCAR) to ensure that Competent Authorities receive sufficient comparable information to supervise compliance of issuers with MiCAR requirements and provide the EBA with the information necessary to conduct the significance assessment under MiCAR.

Insurance

EIOPA opened first batch of consultations on technical standards after Solvency II Review.

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On October 01, 2024 the European Insurance and Occupational Pensions Authority (EIOPA) launched a series of consultations on regulatory technical standards (RTS) and implementing technical standards (ITS) regarding changes that are expected to be introduced to the regulatory framework as part of the Solvency II review process.

The altogether five consultations launched – four on RTS and one on ITS – cover topics ranging from cross-border supervision and the liquidity management of insurers to the criteria for identifying exceptional sector-wide shocks. These standards, once adopted, will guide the implementation of the new features within the Solvency II framework to improve supervisory effectiveness, risk management and financial stability in the EU's insurance sector.

ESMA published a report on first application of IFRS 17 Insurance Contracts.

On October 25, 2024 the European Securities and Markets Authority (ESMA) published a report which includes recommendations to assist issuers when preparing their annual financial statements. This Report provides:

- An overview of ESMA's and National Competent Authorities' (NCAs) observations regarding the first-time application of the International Financial Reporting Standard (IFRS) 17 Insurance Contracts in the 2023 financial statements of a sample of European insurance companies.
- Examples of disclosures which may enable issuers to visualise the application of certain IFRS 17 requirements.
- Recommendations to issuers on how the IFRS 17 disclosures can be improved.

EIOPA released its opinion on the scope of DORA in light of the review of the Solvency II framework.

On November 15, 2024 the European Insurance and Occupational Pensions Authority (EIOPA) published its opinion on the impact of the increased size thresholds regarding exclusion from scope of Solvency II as part of the Solvency II Review on insurance undertakings in the scope of the Digital Operational Resilience Act (DORA).

In its opinion EIOPA is calling on the European Commission to take the necessary actions to avoid disproportionate compliance efforts from small insurance undertakings in the transition period prior to the application of the revised Solvency II Directive.

Insurance

EIOPA seeks feedback on its proposal for the development of a natural catastrophes tool to raise awareness on potential risks and on prevention measures.

On November 28, 2024 the European Insurance and Occupational Pensions Authority (EIOPA) published a consultation paper regarding the development of an awareness tool. It aims at helping citizens better understand how exposed is their property to natural hazards, the benefits of adequate insurance coverage and what prevention measures they can take to reduce potential losses. EIOPA outlines the key information that should be made available in the tool, including:

- The risk score to natural hazards of a property based on its location
- Risk prevention measures available for the most common types of perils
- Measures related to insurance coverage, providing information on the importance of being aware of exclusions, on potential national insurance schemes in place for natural catastrophes, among others

EIOPA's stress test shows EU insurers can handle surging geopolitical risks but at a heavy price.

On December 17, 2024 the European Insurance and Occupational Pensions Authority (EIOPA) published the results of its 2024 Insurance Stress Test in which it assessed European insurers' ability to cope with the economic and financial fallout from a resurgence of geopolitical tensions. The exercise shows that insurers in the European Economic Area are overall well-capitalized and able to meet the Solvency II requirements even under the stress test's severe but plausible shocks that stem from widespread supply-chain disruptions, low growth and renewed inflationary pressures.

EIOPA and ECB proposed European approach to reduce economic impact of natural catastrophes.

On December 18, 2024 the European Insurance and Occupational Pensions Authority (EIOPA) and the European Central Bank (ECB) released a joint paper with a proposal designed to reduce the economic impact of natural catastrophes in the EU. The paper builds on the policy options presented in a 2023 joint ECB-EIOPA discussion paper which advocated a ladder approach to natural catastrophe insurance involving both the private and public sectors. ECB and EIOPA propose a possible EU-level solution composed of two complementary pillars:

- An EU public-private reinsurance scheme to increase the insurance coverage for natural catastrophe risk.
- An EU fund for public disaster financing to reinforce public disaster risk management in Member States.

EIOPA revoked previous guidelines to avoid duplications and overlaps with DORA.

On December 19, 2024 the European Insurance and Occupational Pensions Authority (EIOPA) announced that it will withdraw two previously published guidelines and amend an opinion – all related, at least in part, to the use of information communication technology (ICT) by undertakings. This decision comes in anticipation of the Digital Operational Resilience Act (DORA) coming into application.

By taking this step, EIOPA aims to eliminate overlaps and foster a unified regulatory framework for digital operational resilience in the European insurance and occupational pension funds sectors.

MIFID II

ESMA launched new consultations under the MiFIR review.

ESMA launched new consultations under the MiFIR review.

On October 03, 2024 the European Securities and Markets Authority (ESMA) launched two consultations on transaction reporting and order book data under the Markets in Financial Instruments Regulation (MiFIR) Review. ESMA is seeking input on the amendments to the regulatory technical standards (RTS) for the reporting of transactions and to the RTS for the maintenance of data relating to orders in financial instruments. These RTS are relevant to enhance the information available to stakeholders by improving, simplifying and further harmonising data reporting requirements. The implementation of the revised standards should also result in an overall reduction of the reporting burden for market participants that are subject to different reporting regimes.



Risk Management

EBA published i) methodology, draft templates and key milestones for its 2025 EU-wide stress test and ii) a follow-up to the 2022 Peer Review report on the supervision of the management of NPEs by credit institutions.

Ratings & Credit Risk

EBA responded to the EC on the eligibility and use of credit insurance.

On October 03, 2024 the European Banking Authority (EBA) published a report on eligibility and use of credit insurance, in response to the European Commission' request under the Capital Requirements Regulation (CRR3).

In this report, the EBA calls for an alignment of EU rules with the present Basel framework.

BCBS published final guidelines for counterparty credit risk management.

On December 11, 2024 the Basel Committee on Banking Supervision (BCBS) issued final guidelines for counterparty credit risk (CCR) management. The guidelines include key practices critical to resolving long-standing industry weaknesses in CCR management, including the need to: (i) conduct comprehensive due diligence of counterparties both at initial onboarding and on an ongoing basis; (ii) develop a comprehensive credit risk mitigation strategy to effectively manage counterparty exposures; (iii) measure, control and limit CCR using a wide variety of complementary metrics; and (iv) build a strong CCR governance framework.

The guidelines provide a supervisory response to the significant shortcomings that have been identified in banks' management of CCR, including the lessons learned from recent episodes of non-bank financial intermediary (NBFII) distress.

Recovery/Resolutions

EBA published a Handbook on independent valuers for resolution purposes.

On December 19, 2024 the European Banking Authority (EBA) published a Handbook on independent valuers for resolution purposes. The Handbook enhances convergence by providing best practices, high-quality methodologies and processes for the selection and appointment of independent valuers for resolution purposes, as well as examples on the application of these methodologies under some scenarios.



Risk Management

Risk-Weighted Assets

EBA: Further Tier 1 capital needs for the full implementation of the EU specific Basel III reform are minimal.

On October 04, 2024 the European Banking Authority (EBA) published its third mandatory Basel III monitoring report which assesses the impact that the EU implementation of the Basel III framework will have on EU banks at the full implementation date, i.e. 2033. The additional impact considers the application of all EU requirements, as reflected in the Capital Requirements Regulation (CRR3), i.e. Pillar 2 requirements, and all EU specific capital buffers. In terms of minimum required capital, the impact has further decreased in relation to the previous reference date of December 2022. The impact is minimal in terms of estimated Tier 1 capital shortfall, while the total capital shortfall is estimated at EUR 5.1 billion.

EBA published final standards on the specification of long and short positions under the derogations for market and counterparty risks.

On December 06, 2024 the European Banking Authority (EBA) published its final draft Regulatory Technical Standards (RTS) on the method for identifying the main risk driver and determining whether a transaction represents a long or a short position. These RTS are part of the Phase 1 deliverables of the EBA roadmap on the implementation of the EU banking package in the area of market risk.



Risk Management

Surveys and Statistics

EBA observes an improvement in competent authorities' practices on the supervision of non-performing loans.

On November 07, 2024 the European Banking Authority (EBA) published a follow-up to the 2022 Peer Review report on the supervision of the management of non-performing exposures (NPEs) by credit institutions. The findings of the follow-up report show improvements in competent authorities' supervisory practices that reflect the significant focus given to the supervision of NPEs by the EBA and competent authorities, and demonstrate that all competent authorities now fully or largely apply the EBA guidelines on management of non-performing and forborne exposures.

However, despite these positive results, the EBA cautions against complacency and encourages competent authorities to remain mindful and vigilant of the need to keep NPE ratios under scrutiny.

EBA published methodology, draft templates and key milestones for its 2025 EU-wide stress test.

On November 12, 2024 the European Banking Authority (EBA) released the final methodology, draft templates, and template guidance for the 2025 EU-wide stress test, along with the milestone dates for the exercise. The methodology and templates cover all relevant risk areas and incorporate feedback received from the industry. The stress test exercise will formally start in January 2025, following the release of the macroeconomic scenarios, with the results scheduled for publication in early August 2025.

EU banks' liquidity coverage ratio increased in June 2024, underpinned by growth in banks' holdings of liquid assets.

On December 13, 2024 the European Banking Authority (EBA) published a report on liquidity measures, which monitors and evaluates the liquidity coverage requirements currently in place in the EU. Between June 2023 and June 2024, EU banks' liquidity coverage ratio (LCR) increased by 3 percentage points to reach 167%. Within that period, changes in the composition of banks' funding deposits were observed while banks' holdings of liquid assets steadily increased. EU banks' average LCR in USD and in GBP improved during the period under review, to exceed 100% as of June 2024.



Risk Management

Other General Aspects

ECB keeps capital requirements broadly steady for 2025, reflecting strong bank performance amid heightened geopolitical risks.

On December 17, 2024 the European Central Bank (ECB) published the results of its Supervisory Review and Evaluation Process (SREP) for 2024 and its supervisory priorities for 2025-27. Key highlights include:

- solid capital and liquidity positions and good profitability across banks
- internal governance, risk management and operational resilience still key areas of concern
- average SREP score broadly stable; Pillar 2 requirements for CET1 capital slightly up, from 1.1% to 1.2%
- qualitative measures on credit risk management, internal governance and capital adequacy
- macro-financial threats and severe geopolitical shocks, remediation by banks and risks of digital transformation as supervisory priorities



Other

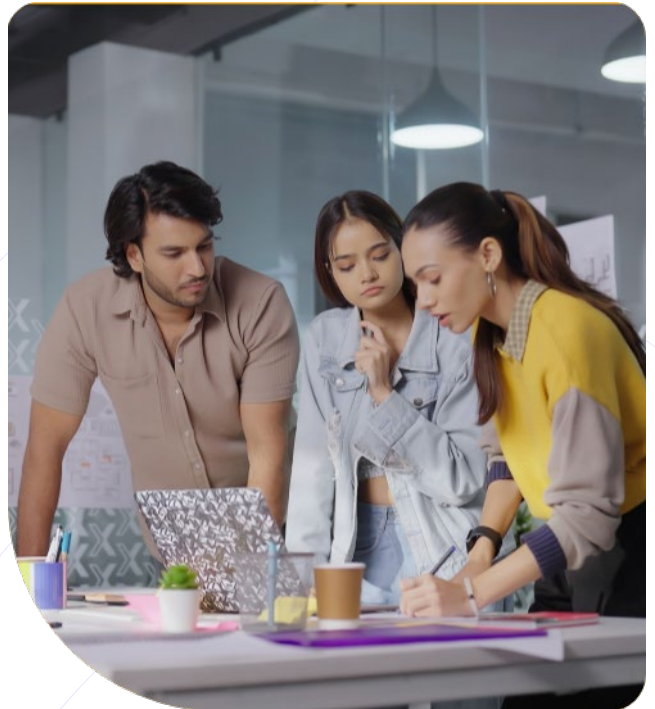
EC approved €150 million Greek State aid measure funded under RRF to support construction of carbon storage facility in Prinos.

EC approved €150 million Greek State aid measure funded under RRF to support construction of carbon storage facility in Prinos.

On October 28, 2024 the European Commission approved, under EU State aid rules, a €150 million Greek measure made available through the Recovery and Resilience Facility (RRF) to support the construction of a carbon storage facility in Prinos. The measure contributes to achieving Greece's climate targets and the EU's strategic objectives under the European Green Deal.

EBA published its Work Programme for 2025.

On October 02, 2024 the European Banking Authority (EBA) published its Work Programme outlining the key priorities and initiatives for 2025. Throughout next year, the EBA will be i) implementing the EU Banking Package and enhancing the Single Rulebook, ii) enhancing risk-based and forward-looking financial stability for a sustainable economy, iii) enhancing data infrastructure and launching a data portal, iv) starting oversight and supervisory activities under the Digital Operational Resilience Act (DORA) and Markets in Crypto-Assets Regulation (MiCAR), and v) developing consumer oriented mandates and ensuring a smooth transition to the new anti-money laundering and countering the financing of terrorism (AML/CFT) framework.



03 Appendixes

Appendix: Glossary

AANA

Aggregate Average Notional Amount

AML/CFT

Anti-Money Laundering and Countering the Financing of Terrorism

AI

Artificial Intelligence

AISPs

Account Information Service Providers

AIFMD

Alternative Investment Funds Market Directive

BCBS

Basel Committee on Banking Supervision

BIS

Bank of International Settlements

BMR

EU Benchmark Regulation

CDD

Customer Due Diligence

CRD IV

Capital Requirements Directive IV

DGSs

Deposit Guarantee Schemes

DLT

Distributed Ledger Technology

DRSP

Data Reporting service providers

AISPs

Account Information Service Providers

EBA

European Banking Authority

ECON

Economic and Monetary Affairs Committee

EIOPA

European Insurance and Occupational Pensions Authority

EP

European Parliament

ESAs

European Supervisory Authorities

ESG

Environmental, Social and Governance

FICC

Fixed Income Clearing Corporation

GAR

Green Asset Ratio

IOSCO

International Organization of Securities Commissions

IAS

International Accounting Standards

IFRS

International Financial Reporting Standards

Appendix: Glossary

IT Information Technology	RegTech Regulatory Technology
ITS Implementing Technical Standards	RWAs Risk weighted assets
IOSCO International Organization of Securities Commissions	SFDR EU Regulation on sustainability-related disclosures in the financial services sector
LCR Liquidity Coverage Ratio	SFTR Securities Financing Transactions Regulation
LIBOR London Inter-Bank Offered Rate	SFT Securities Financing Transactions
MiCA Markets in Crypto Assets	SupTech Supervisory Technology
NPEs Non-Performing Exposures	OTC Over-the-Counter
NPL Non-Performing Loans	
P2B Platform to Business	
PISPs Payment Initiation Services Providers	
RTS Regulatory Technical Standard	

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