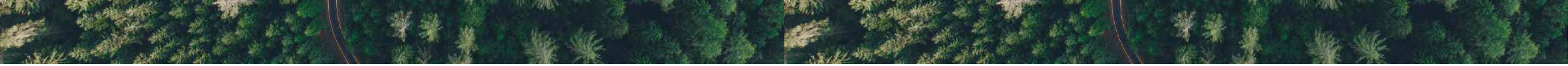
finalyse

REGULATORY BRIEF
JULY 2024



Finalyse

A fresh take on
risk and valuation

Our purpose

Our aim is to support our clients incorporating changes and innovations in valuation, risk and compliance. We share the ambition to contribute to a sustainable and resilient financial system. Facing these extraordinary challenges is what drives us every day.

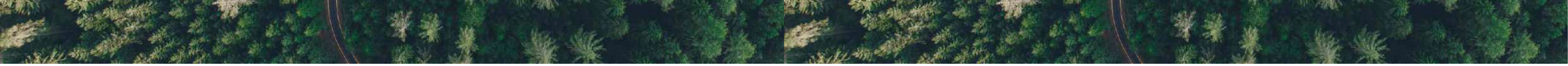
Regulatory Brief

The RegBrief provides a catalogue of policy updates impacting the financial industry. Emphasis is made on risk management, reporting and disclosure. It further covers legislation on governance, accounting and trading, as well as information on the current business environment.

Note: The Cross-Sector chapter includes regulatory updates that may affect multiple industries.

Data: 1 April 2024 - 30 June 2024

Contents

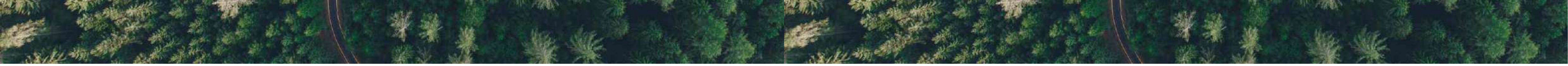


Abbreviations

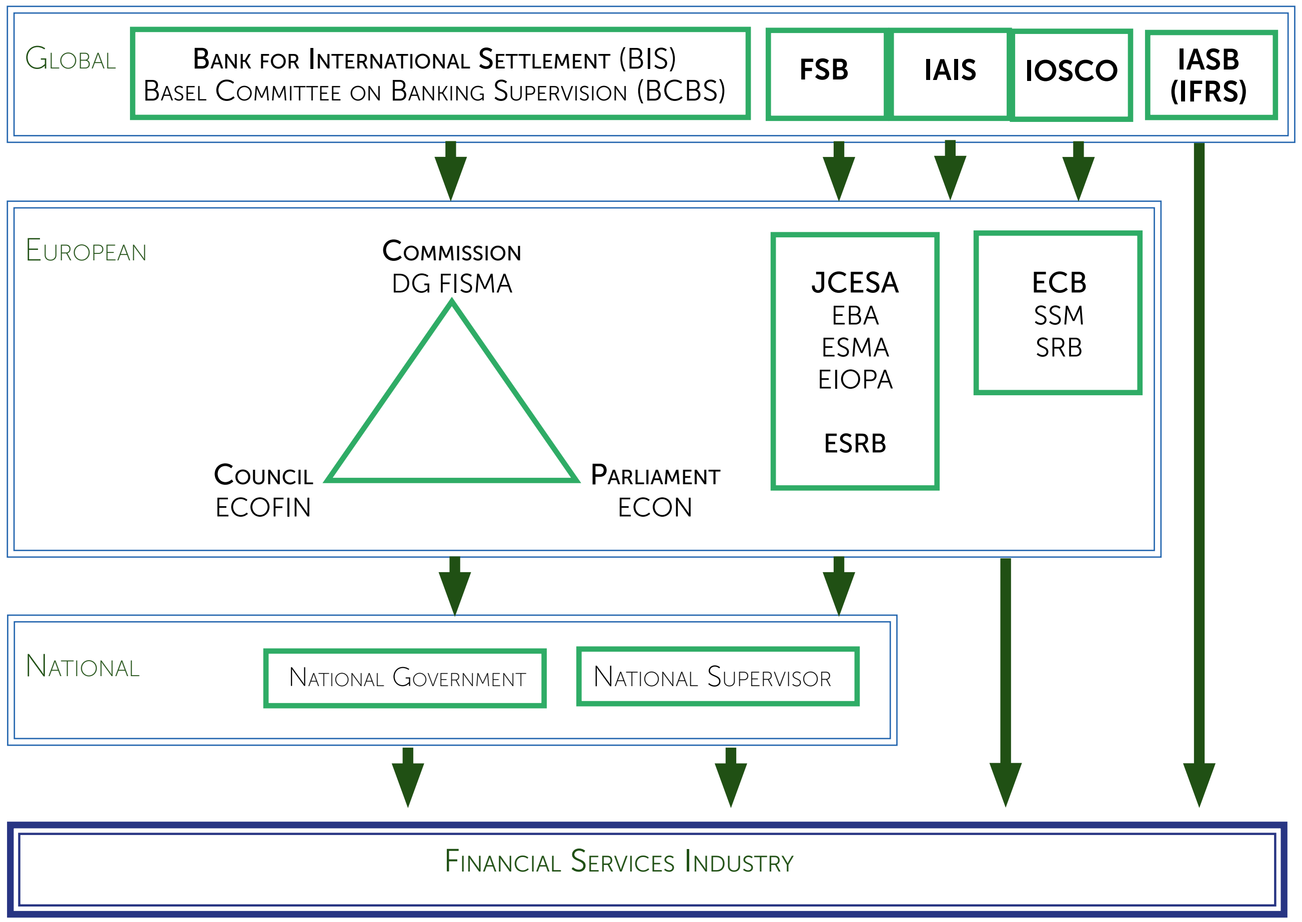
AIFMD	Alternative Investment Fund Managers Directive
AMA	Advanced Measurement Approach
AML	Anti-Money Laundering
AT1	Additional Tier 1
BCBS	Basel Committee on Banking Supervision
BIS	Bank of International Settlements
BMR	Benchmarks Regulation
BRRD	Bank Recovery and Resolution Directive
CCP	Central Counterparty
CET 1	Common Equity Tier 1
CFR	Core Funding Ratio
CMU	Capital Markets Union
Council	Council of the European Union
CPMI	Committee on Payments & Market Infrastructures
CRA	Credit Rating Agencies (Regulation)
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CSD	Central Securities Depository
CTP	Consolidated Tape Provider
CVA	Credit Valuation Adjustment
DGS	Deposit Guarantee Scheme
DPM	Data Point Model
EBA	European Banking Authority
ECAI	External Credit Assessment Institution
ECB	European Central Bank
ECL	Expected Credit Loss
EDIS	European Deposit Insurance Scheme
EEA	European Economic Area
EEAP	European Electronic Access Point
EFTA	European Free Trade Association
EIOPA	European Insurance & Occupational Pensions Authority
ELTIF	European Long-Term Investment Fund
EMIR	European Markets Infrastructure Regulation
ESMA	European Securities & Markets Authority
ESRB	European Systemic Risk Board
EU	European Union
EuSEF	European Social Entrepreneurship Fund
EuVECA	European Venture Capital Fund
FINREP	Financial Reporting
FICOD	Financial Conglomerates Directive
FRTB	Fundamental Review of the Trading Book
FSB	Financial Stability Board
FX	Foreign Exchange
GAAP	Generally Accepted Accounting Principles
G-SIB	Global Systemically Important Bank
G-SII	Global Systemically Important Institution
IAS	International Accounting Standards
IASB	International Accounting Standards Board

Abbreviations

IBIP	Insurance-Based Investment Product
ICAAP	Internal Capital Adequacy Assessment-Process
IDD	Insurance Distribution Directive
IFRS	International Financial Reporting Stand-ards
ILAAP	Internal Liquidity Adequacy Assessment Process
IORP	Institutions for Occupational Retirement Provision (Directive)
IOSCO	International Organisation of Securities Commissions
IRB	Internal Rating Based Approach
IRRBB	Interest Rate Risk in the Banking Book
ITS	Implementing Technical Standards
JCESA	Joint Committee of European Supervisory Authorities
KID	Key Information Document
LCR	Liquidity Coverage Ratio
LEI	Legal Entity Identifier
LGD	Loss Given Default
LR	Leverage Ratio
LSI	Less Significant Institution
MCD	Mortgage Credit Directive
MiFID	Markets in Financial Instruments Directive
MiFIR	Markets in Financial Instruments Regulation
MMF	Money Market Fund
MS	Member States
NCA	National Competent Authority
NPL	Non-Performing Loan
NSFR	Net Stable Funding Ratio
OSII	Other Systemically Important Institution
PAD	Payment Accounts Directive
Parl	European Parliament
PD	Probability of Default
PRIIPs	Packaged Retail and Insurance-Based Investment Products (Regulation)
PSD	Payment Services Directive
REFIT	Regulatory Fitness & Performance Programme
RTS	Regulatory Technical Standards
RWA	Risk-Weighted Asset
SFT(R)	Securities Financing Transaction (Regulation)
SI	Systematic Internaliser
SMA	Standardized Measurement Approach
SREP	Supervisory Review & Evaluation Process
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
STC	Simple, Transparent & Comparable (Securitisation)
TLAC	Total-Loss Absorbing Capacity
TR	Trade Repository
UCITS	Undertakings for Collective Investment in Transferable Securities
UPI	Unique Product Identifier
UTI	Unique Transaction Identifier



Institutional Framework



The international organisations on the top row set global standards for their respective members. These global norms are not binding, but have to be further translated in national (European) legislation.

European legislation is proposed by the Commission and, after political negotiations, voted in the European Parliament and the Council of Ministers. Adopted regulations and decisions are directly applicable to EU member states, while directives have to be translated into national law before they apply.
The technical details are fine-tuned by the supervisory authorities: EBA, ESMA and EIOPA.

Finally, where necessary, national governments and supervisors translate and supplement the international and European policies for the domestic market.

Regulatory Calendar

2024 Q3

MiCA
Regulation
Most of the provisions of MiCA
Application date: tbd

Stress Test
Guidelines
GL on institutions' climate stress test
Joint ESAs Guidelines on methodologies for climate stress testing
Document release: tbd

Solvency II
RTS
Technical documents and GLs following the review of Solvency II
Document release: tbd

Solvency II
Guidelines
On integrating ESG factors in risk management
Document release: tbd

2024 Q4

Sustainable Finance
Thematic review
To be aligned with supervisory expectations, including integration of C&E risks in stress testing framework and ICAAP
Application date: 31 Dec 2024

Solvency II
Draft RTS
Reassessment of the Natural Catastrophe risk standard formula capital charges
Document release: tbd

ICS
International Standards
Planned adoption of ICS
Application date: 24 Dec 2024

2025 Q1

CRR
Regulation
Most of CRR 3 provisions are intended to come into force
Application date: 1 Jan 2025

Basel
Standards
Prudential treatment of banks' exposures to cryptoassets
Application date: 1 Jan 2025

2025 Q3

Stress Test
Results
EBA publication of the 2025 EU-wide stress test results
Document Release: July 2025

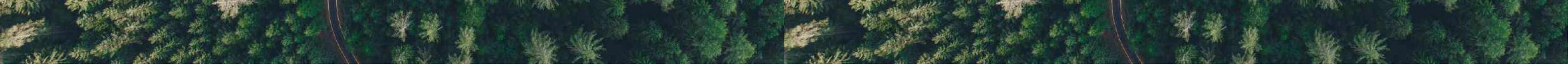
CRR
ITS
On joint decision process for internal model applications
Document Release: tbd

RTS
On criteria that institutions shall use to assign off-balance-sheet items, constraining factors for UCC and notification process
Document Release: tbd

Guidelines
To specify proportionate diversification methods for retail definition
Document Release: tbd

2028 Q1

Basel
Standards
Basel IV capital floor implementation end postponed from 1 Jan 2027
Implementation deadline: 1 Jan 2028



Explanatory Note & Legend

Scope Regulatory updates include EU legislation, international standards and other relevant publications from the European authorities. They are gathered from official publications and institutions' official communication channels.

Status Updates are labelled with a symbol which indicates the status of the regulation at the time of publication:

Consultation: The first circle is filled when an official draft is open for public consultation.

Pending: The second circle is filled when a final proposal needs to be adopted by a vote or non-objection.

Effective: The third circle is filled when a regulation is final and adopted. There might be a certain delay until it applies.

Informative: This symbol indicates purely informative documents, such as briefings and reports.

Click on these links to open the original documents

Climate Risk

EIOPA (Consultation Paper)

Prudential treatment of Sustainability Risks

The EIOPA has initiated a consultation on the prudential treatment of sustainability risks, marking the second phase of its approach under the Solvency II Directive. This directive mandates EIOPA to evaluate whether a specialized prudential treatment for assets or activities linked to environmental or social objectives is justified. The consultation aims to assess the potential for dedicated prudential treatment in response to risks associated with environmental and social factors.

Release date: 2023-12-13
Consultation End:2024-03-24

eiopa.europa.eu

Trending Topics

1. Banking Package - CRR/CRD

The banking institutions are waiting for the closure of the lengthy legislative process that surrounds the adoption of CRR 3 and CRD IV. At this stage, there is a lack of clarity to what extent the final banking package will differ from what was proposed by the Commission in October 2021. On 27th June, the Council and the Parliament announced a "provisional agreement" indicating that whilst there is progress, the negotiations are not yet done.
However, the banking package is expected to take force in 2025. Given the size of the requirements, there already is a shortage of time for the implementation by 2025 and we do not have the final version yet. To some extent, this may be mitigated by banks already working to implement the Basel standards, but this approach is not always possible (e.g. for reporting).
Simultaneously, in 2023, some aspects of the CRR 2 came into force regarding the use of the internal models and some components of FRTB. The regulators however are deprioritising the supervision of the compliance with these rules. The internal models for the market risk are not very much used and the CRR 2 FRTB framework is incomplete as it needs to be complemented by the provisions in the new banking package.

2. Insurance

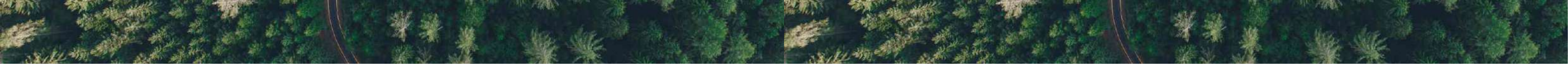
The IFRS 17 accounting standard together with IFRS 9 has been in force in the EU since 1 January 2023, with most insurers more or less having already implemented those standards.
As of now, the insurers are waiting for the release of the (originally 2020) Solvency 2 review. The Commission has adopted its proposal on 22nd September 2022, but the legislative process of adopting the release is still underway, although markedly delayed.
Meanwhile, on the international front, the IAIS has issued a public consultation regarding its Insurance Capital Standards (ICS). The observation period is coming to an end and the IAIS is gathering all information.
Climate risk will feature in more and more risk, reporting and disclosure activities, bringing its own set of challenges, chiefly related to data gathering and model building. Stress testing is at the forefront of the EIOPA's agenda right now, so climate risk should be added to the stress testing framework this year (and the climate risk stress test for insurers likely next year). The IFRS have released a new set of standards regarding the disclosures of climate risks.

3. EMIR Refit

Last October, a number of EMIR–related technical standards were published. As a result, since April 2024, the reporting requirements under Article 9 of EMIR have once again been changed. The major changes can be described as follows:

1. Prohibition of using the proprietary formats for reporting to trade repositories. As of April 2024, only ISO 20022 XML is accepted.
2. Closer alignment of the reports' formats with global guidance developed by CPMI-IOSCO on the definition, format and usage of key OTC derivatives data elements reported to trade repositories.
3. Reports should now cover 3 tables, with the third table focusing on the collateral-related reports with some additional fields.
4. More clarifications related to the mandatory delegation of the reporting for NFCs-.
5. Clarification about submitting information to NCAs for significant reporting issues.
6. Clarification about the controls that trade repositories are required to perform.

Banking



Banking Regulatory Timeline

2024 Q3

CRR
Report
Risk assessment report (RAR) of the European banking system
Document release: tbd

RTS
To specify the systemic importance indicators
Document release: tbd

Stress Test
Stress Test
GL on institutions' climate stress test
Document release: tbd

2024 Q4

CRR
RTS
Establishing a risk taxonomy of OpRisk loss events and on mapping Business Indicator components (BIC) to FINREP
Document release: tbd

Report
On availability of data and feasibility of introducing a standardised methodology
Document release: 31 Dec 2024

Stress Test
Preparatory Work
EBA Preparation and methodological work for 2025 EU-wide stress test exercise
Document release: tbd

Analysis
EBA One-off fit-for-55 climate scenario analysis
Document release: tbd

2025 Q1

CRR
Regulation
Most of CRR 3 provisions are intended to come into force
Application date: 1 Jan 2025

Basel
Standards
prudential treatment of banks' exposures to cryptoassets
Application date: 1 Jan 2025

2025 Q2

CRD
Guidelines
On output floor and impact on the SREP
Application date: 1 Jan 2025

2025 Q3

Stress Test
Results
EBA publication of the 2025 EU-wide stress test results
Document Release: July 2025

CRR
ITS
On joint decision process for internal model applications
Document Release: tbd

RTS
On criteria that institutions shall use to assign off-balance-sheet items, constraining factors for UCC and notification process
Document Release: tbd

Guidelines
To specify proportionate diversification methods for retail definition
Document Release: tbd

RTS
Specifying the term "equivalent legal mechanism" in place to ensure that the property under construction will be finished within a reasonable time frame
Document Release: tbd

Guidelines
Specifying the terms substantial cash deposits, appropriate amount of obligor-contributed equity and significant portion of total contracts
Document Release: tbd

Guidelines
On the definition of default, in particular for diminished financial obligation
Document Release: tbd

RTS
On the specification of long and short positions
Document Release: tbd

RTS
On supervisory delta for commodity prices
Document Release: tbd

RTS
On FX and commodity risk in the banking book
Document Release: tbd

RTS
On risk factor modellability
Document Release: tbd

RTS
On profit and loss attribution
Document Release: tbd

Banking Regulatory Timeline

RTS
On Crypto
Document Release: tbd

RTS
On disclosure requirements/ disclosure formats and instructions
Document Release: tbd

ITS
Specifying uniform disclosure formats for ESG risks
Document Release: tbd

Report
On the completeness and appropriateness of the relevant CRR definitions and provisions on consolidation
Document Release: tbd

CRD
Guidelines
On specific publication requirements
Document Release: tbd

Report
On whether any financial sector entity in addition to credit institutions should be exempted from the requirement to establish a branch for the provision of banking services by third-country undertakings
Document Release: tbd

2025 Q4

CRR
Guidelines
On effective riskiness, additional modifications to the framework and effects on financial stability and bank lending
Document Release: tbd

2026 Q1

CRR
RTS
Specifying types of factors to be considered for risk weights for exposures secured by mortgages on immovable property
Document Release: tbd

RTS
Specifying the conditions for assessing the materiality of the use of an existing rating system for other additional exposures and changes to rating systems under the IRB approach
Document Release: tbd

Guidelines
On artificial cash flow and discount rate
Document Release: tbd

RTS
On data inputs of Market Risk
Document Release: tbd

RTS
On the elements to calculate the business indicator components
Document Release: tbd

ITS
On mapping BIC components to FINREP
Document Release: tbd

RTS
On adjustments of the BIC
Document Release: tbd

RTS
On the calculation of aggregated losses above 750k and unduly burdensome exemption
Document Release: tbd

RTS
Establishing a risk taxonomy of operational risk loss events
Document Release: tbd

CRD
ITS
Templates for IPU monitoring threshold
Document Release: tbd

RTS
On the minimum information to be provided for assessing QHs
Document Release: tbd

RTS
On booking arrangements TCBs
Document Release: tbd

ITS
On minimum common reporting of TCBs
Document Release: tbd

ITS
On mechanisms of cooperation and functioning of supervisory colleges for thirdcountry branches
Document Release: tbd

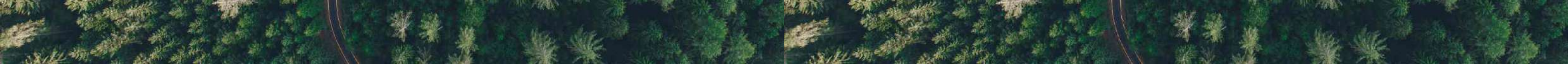
Guidelines
On minimum standards and reference methodologies for the identification, measurement, management and monitoring of ESG risks
Document Release: tbd

Guidelines
Joint guidelines on methodologies for the stress testing of ESG risks
Document Release: tbd

2026 Q3

CRD
RTS
On the list of information to be submitted by the proposed acquirer, the assessment criteria and the process for the assessment of the acquisition of material holdings and mergers
Document Release: tbd

ITS
On the cooperation between CAs for the acquisition of material holdings
Document Release: tbd



Banking Regulatory Timeline

Guidelines
Joint EBA ESMA GLs on the assessment of the suitability of members of the MB taking into account the changes introduced re the assessment of the MB and KFHs both by institutions and CAs
Document Release: tbd

CRR

RTS
On the calculation of aggregated losses above 750k and unduly burdensome exemption
Document Release: tbd

RTS
Specifying the assessment methodology for compliance with the requirements to use the IRB
Document Release: tbd

RTS
On the categorisation to PF, OF and CF, and the determination of IPRE
Document Release: tbd

RTS
On how to take into account the factors when assigning risk weights to specialised lending exposures
Document Release: tbd

RTS
On methodologies to assess the integrity of the assignment process and the regular and independent assessment of risks
Document Release: tbd

RTS
Specifying the methodology of an institution or estimating PD under Article 143

RTS
On the methodologies to assess the integrity of the assignment process and the regular and independent assessment of risks
Document Release: tbd

RTS
Specifying the methodology of an institution for estimating PD under Article 143
Document Release: tbd

Report
On the appropriate calibration of risk parameters applicable to specialised lending exposures under the IRB
Document Release: tbd

Report
On the recognition of capped or floored unfunded credit protection
Document Release: tbd

Report
On the recognition of capped or floored unfunded credit protection
Document Release: tbd

Report
On the impact of the new framework for securities financing transactions in terms of capital requirements
Document Release: tbd

RTS
On structural FX for Market Risk
Document Release: tbd

RTS
On conditions for not counting overshootings
Document Release: tbd

RTS
On extraordinary circumstances for prudent valuation
Document Release: tbd

RTS
On SFTs for CVA risk
Document Release: tbd

Report
On the implementation of international standards on own funds requirements for market risk in third countries
Document Release: tbd

2026 Q4

CRR

Guidelines
Specifying the methodology institutions shall apply to estimate IRB-CCF
Document Release: tbd

Report
To the Commission on the consistency with the current measurement of credit risk
Document Release: tbd

RTS
On the hypothetical portfolios of CIUs in the trading book
Document Release: tbd

Report
On the prudential treatment of securitisation transactions including the application of the output floor
Document Release: tbd

2027 Q1

CRD

Guidelines
On internal governance of thirdcountry branches
Document Release: tbd

CRR

Report
On haircut floors for SFTs
Document Release: tbd

Banking Regulatory Timeline

RTS
On the exclusion of losses
Document Release: tbd

RTS
On the adjustments to the loss dataset
Document Release: tbd

RTS
On the risk management framework
Document Release: tbd

Guidelines
On the application of aggregate limits or tighter individual limits to exposures to shadow banking entities
Document Release: tbd

2027 Q3

CRR

RTS
On specifying further the conditions and criteria for assigning exposures to the IRB exposure classes
Document Release: tbd

RTS
On the calculation of the risk-weighted exposure amount for dilution risk of purchased receivables
Document Release: tbd

RTS
On comparable property
Document Release: tbd

Report
On the appropriate calibrations of risk parameters associated with leasing exposures under the IRB approach
Document Release: tbd

RTS
On net short credit and equity positions
Document Release: tbd

Guidelines
On exceptional circumstances for the reclassification of a position
Document Release: tbd

RTS
On proxy spread
Document Release: tbd

RTS
On further technical elements for regulatory CVA
Document Release: tbd

RTS
On instruments appropriate to estimating PDs
Document Release: tbd

Report
On the feasibility of using qualitative and quantitative information
Document Release: tbd

2027 Q4

CRR

Report
On appropriateness of the treatment of exposures secured by mortgages on commercial property
Document Release: tbd

Report
Intermediary report on the impact of the requirements on agricultural financing
Document Release: tbd

Report
the contribution of non-banking financial intermediation to the Capital Markets Union
Document Release: tbd

2028 Q1

BASEL

Standards
Basel IV capital floor implementation end postponed from 1 Jan 2027
Implementation deadline: 1 Jan 2028

CRR

Report
On the use of insurance in the context of operational risk and the availability and quality of data when calculating their own funds requirements for operational risk
Document Release: tbd

2028 Q3

CRD

Guidelines
On monitoring operations between the third-country branches of the same head undertaking
Document Release: tbd

CRR

Guidelines
On immateriality of size and risk profile of exposures
Document Release: tbd

RTS
On assessment methodology for the FRTB-SA
Document Release: tbd

RTS
On the materiality of extensions and changes for the SA-CVA
Document Release: tbd

RTS
On assessment methodology for the SA-CVA
Document Release: tbd

2028 Q4

CRD
Report
On the use of the waiver as envisaged in accordance with paragraph 3a as well as on the use of the power under point 1(b)(iii) of Article 4(1) of the CRR
Document Release: tbd

CRR
Report
On the results of monitoring activity of specialised debt restructurers
Document Release: tbd

Report
On the use of the transitional treatment and appropriateness of risk weights for exposures secured by residential property
Document Release: tbd

Report
On transitional arrangements for unconditional cancellable commitments
Document Release: tbd

2029 Q3

CRR
Report
On immateriality of size and risk profile of exposures
Document Release: tbd

2029 Q4

CRD
Report
With ECB on the application of paragraphs 1d to 1j and on their efficiency in ensuring that the fit and proper framework is fit for purpose taking into account the principle of proportionality
Document Release: tbd

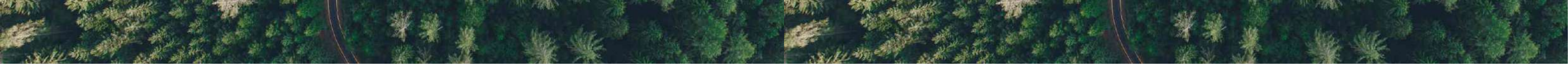
CRR
Report
On the exemption from residual risks for hedging positions
Document Release: tbd

2030 Q4

CRR
Report
On the impact of the requirements on agricultural financing
Document Release: tbd

2031 Q4

CRR
Report
On operational risk ILDC
Document Release: tbd



ARTICLE

Navigating the Green Wave: ESG Reporting Unveiled

Written by [Meghna Jain](), Finalyse Consultant

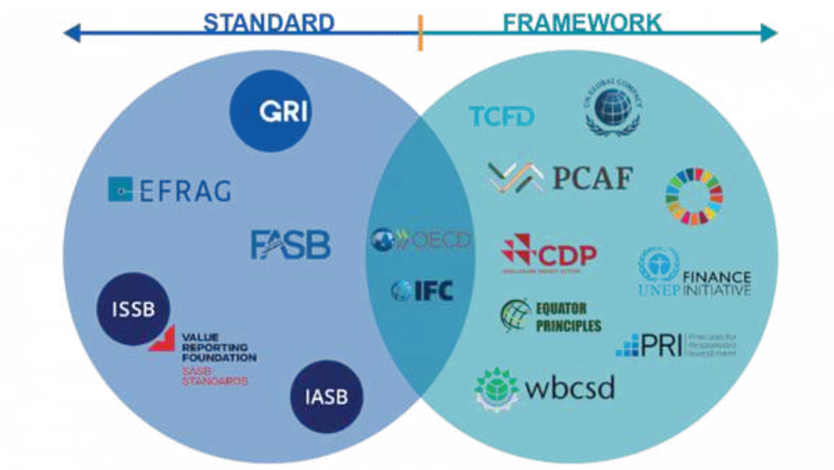
Reviewed by [Hugo Weitz](), Finalyse Principal Consultant

In recent years, Environmental, Social, and Governance (ESG) reporting has emerged as a critical aspect of corporate transparency and sustainability. Financial institutions globally are navigating increasingly complex regulations and frameworks with diverse data requirements. ESG reporting goes beyond financial metrics, providing insights into a company's impact on the environment, society, and governance practices. The following article provides a guide to assist financial institutions in thorough ESG reporting.

ESG reporting entails the comprehensive disclosure of a financial institution's performance across environmental, social, and governance factors. These factors collectively provide a holistic view of an institution's exposure to the climate risk, sustainability efforts, ethical standards, and governance mechanisms. Environmental considerations encompass metrics such as carbon emissions, energy consumption, and waste management. Social factors may include diversity and inclusion, labour practices, and community engagement, while governance factors revolve around board diversity, executive compensation, accountability and governance structures.
The growing significance of ESG reports stems from investors and regulators on institutions to adopt ESG reporting practices and disclose further insights into their sustainability activities. The primary objective of ESG reporting lies in identifying and assessing ESG risks, benchmarking it's ESG initiatives against industry standards and targets, and providing transparency to stakeholders.

ESG Regulatory Landscape

The realm of ESG reporting is governed by a plethora of regulations and frameworks, each contributing to the landscape of sustainability disclosure. ESG reporting frameworks offer guidance on the focal areas institutions should prioritize, as well as methodologies to structure and present information for disclosure. Amidst the options available for seeking to disclose ESG information, accuracy, automation and auditability lay at the core of sound ESG reporting practices. Notable frameworks and requirements include:



Global Reporting Initiative (GRI)

The GRI is a globally applicable guidance framework that provides standards detailing approaches to materiality, management reporting, and disclosure across the spectrum of ESG issues. Today, GRI standards serve as a roadmap for companies endeavouring to craft their own sustainability reports.

Task Force on Climate-related Financial Disclosures (TCFD)

The TCFD was designed to address climate risks to the business. It allows institutions worldwide to articulate how ESG performance will materially influence future financial performance and value creation.

Corporate Sustainability Reporting Directive (CSRD)

The CSRD lays down rules mandating institutions to report sustainability aspects encompassing various topics related to environmental and social issues. Institutions subject to the CSRD must adhere to European Sustainability Reporting Standards (ESRS).

EU Taxonomy

The EU Taxonomy establishes criteria to ascertain whether an economic activity is environmentally sustainable. It compels certain entities to disclose information pertaining to the alignment of their activities with the Taxonomy.

EBA ESG Pillar 3

The European Banking Authority (EBA) published the Implementing Technical Standards detailing these EU ESG Pillar 3 disclosures. The EBA ESG Pillar 3 package is slated to address the shortcomings of institutions' existing ESG disclosures at the EU level by instituting mandatory and consistent disclosure requirements, inclusive of granular templates, and associated instructions. This ITS package will only enter into force after publication in the Official Journal of the EU.

Key Challenges Faced by Financial Institutions for ESG Reporting

Financial institutions encounter multifaceted challenges in navigating the complexities of ESG reporting. The key challenges are stated below:

- Data Complexity: Financial institutions grapple with vast volumes of complex financial and non-financial data, making the collection, analysis, and accurate reporting of ESG metrics a difficult task. Challenges arise from inconsistencies in data sources, data gaps, and varying data quality standards. Developing methodologies to address these gaps and integrating ESG data with financial systems necessitates specialized expertise and robust technology infrastructure.
- Regulatory Compliance: Operating in quickly evolving and highly regulated environment, financial institutions face various growing reporting requirements and regulatory scrutiny. Meeting different ESG reporting obligations, such as Pillar 3 disclosures and CSRD requirements, adds layers of complexity and compliance burden. Harmonizing reporting practices amidst diverse guidelines and expectations poses significant challenges.
- Data Fragmentation: ESG reporting standards and frameworks lack global standardization, resulting in inconsistencies in data collection, measurement, and reporting practices. Decentralized data systems and siloed business units within financial institutions contribute to fragmented ESG data management practices. Coordinating data collection efforts across diverse business lines and geographies poses challenges, leading to inconsistencies and inefficiencies.
- Resource Constraints: Many financial institutions, especially mid-sized banks and insurers face limitations in resources, expertise, technology and capacity to manage ESG data effectively, resulting in incomplete or approximative disclosures.
- Risk Management: Financial institutions face unique ESG risks associated with lending and investment activities, including credit risk, market risk, reputational risk, business risk,

and compliance risk. Effectively assessing and managing these risks demands robust ESG data management processes and integrated risk management frameworks.
- Stakeholder Expectations: Meeting stakeholder expectations for transparent and credible ESG reporting necessitates overcoming data management challenges and enhancing reporting capabilities.

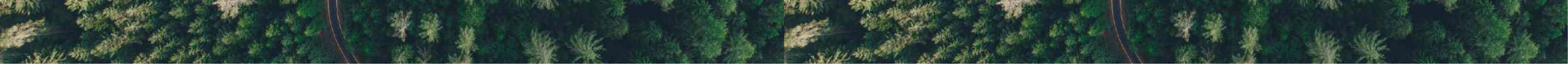
Addressing these challenges requires a holistic approach to ESG data management (for comprehensive guide related to ESG Data Management please refer to the blog "Unlocking Data Management for ESG Reporting: A Comprehensive Guide"), including investment in technology, data governance frameworks, capacity building, stakeholder engagement, and collaboration with industry peers and stakeholders. By overcoming these challenges, companies can enhance the quality, transparency, and credibility of their ESG reporting and contribute to sustainable business practices and stakeholder trust.

ESG Reporting Involves Several Key Steps

- Identification and Assessment of Material Risks: Determine the ESG issues most pertinent to your business and stakeholders through a comprehensive materiality assessment. Prioritize key issues based on their significance and impact, ensuring alignment with institutional goals. Conduct regular reviews and assessments to adapt to evolving priorities and stakeholder expectations.
- Set Goals and Targets: Establish clear and measurable ESG goals and targets aligned with your institution's strategic priorities and stakeholder expectations.
- Data Management: ESG Data Management constitutes a critical pillar of ESG reporting, encompassing the gathering of relevant data and information on ESG performance indicators. This entails collecting data from internal systems, suppliers, and third-party sources while implementing robust data management processes to safeguard accuracy and integrity.
- Stakeholder Engagement: Engage proactively with key stakeholders, including investors, customers, employees, and communities, to solicit feedback, address concerns, and demonstrate commitment to ESG issues. Leverage stakeholder input to inform ESG strategies and reporting practices, fostering transparency and accountability.
- Reporting: Formulate ESG reports and disclosures in accordance with applicable regulatory requirements and industry standards. Ensure that ESG reports clearly communicate the institution's ESG performance, initiatives, and progress to stakeholders through channels such as annual reports, financial reports, and sustainability reports, fostering transparency and trust.
- Continuous Improvement: Continuously refine and enhance ESG reporting processes and practices based on feedback, emerging trends, and evolving regulatory requirements. Remain vigilant about developments in ESG reporting standards and frameworks to ensure ongoing compliance and relevance, driving continuous improvement in ESG performance and reporting efficacy.

Conclusion

As sustainability gains increasing traction in the financial sector, ESG reporting has evolved from a voluntary practice to a regulatory necessity, becoming an integral part of the corporate governance and accountability. European banks and insurers must navigate a complex web of regulatory requirements governing ESG reporting. By gaining a comprehensive understanding of the scope, timelines, reporting frameworks, and obligations associated with initiatives like CSR reporting, the EU Taxonomy, Pillar 3 ESG reporting, and CSRD, financial institutions can strategically align their approaches and disclosures with evolving standards and expectations of stakeholders.
Institutions that embrace ESG reporting not only fulfill their legal mandates but also gain a competitive advantage by demonstrating their commitment to sustainability, transparency, and long-term value creation. By prioritizing the integrity, efficacy of ESG data, and implementing robust ESG reporting frameworks, companies can effectively meet regulatory mandates, mitigate risks, drive sustainable development, and foster trust among stakeholders in an increasingly ESG-conscious world.



ARTICLE

Unlocking Data Management for ESG Reporting: A Comprehensive Guide

Written by Meghna Jain, Finalyse Consultant

Reviewed by Hugo Weitz, Finalyse Principal Consultant

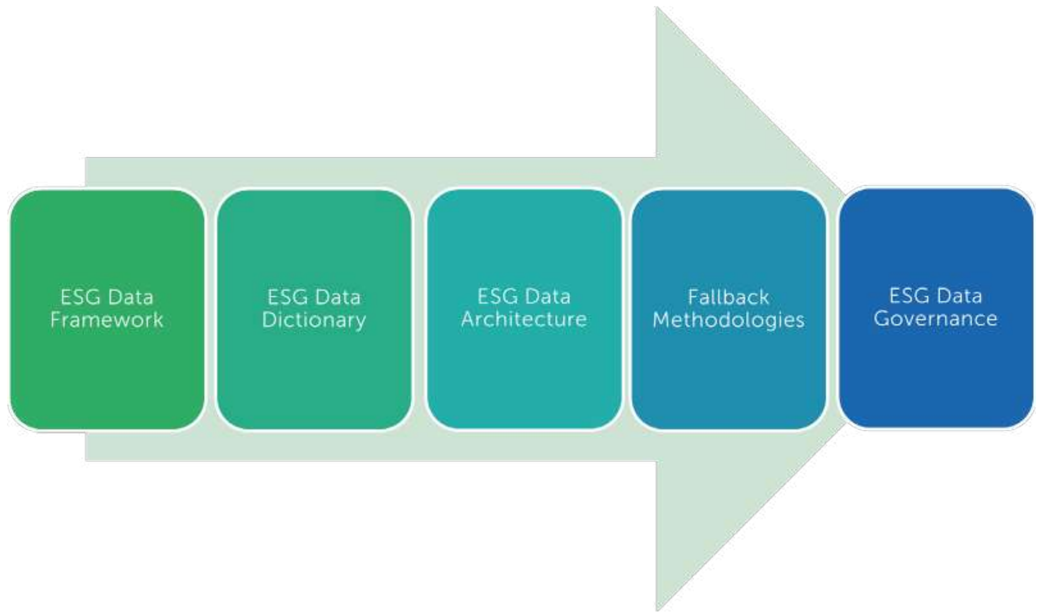
Environmental, Social, and Governance (ESG) factors have become crucial metrics for stakeholders, including investors, customers, and regulatory bodies. Effective ESG data management is essential for accurate and transparent ESG reporting, enabling organizations to demonstrate their commitment to sustainability, social responsibility, and ethical governance. Simplifying ESG data management, including the development of a central ESG data warehouse, robust data architecture, comprehensive data dictionary, methodologies for addressing data gaps, and stringent data governance is essential for managing and disclosing ESG risks. This article will explore the key components to assist financial institutions in mastering the ESG data management, its importance, and best practices to ensure robust ESG reporting. (refer to Navigating the Green Wave: ESG Reporting Unveiled blog for details related to ESG reporting and ESG regulatory landscape

Key Challenges Faced by Financial Institutions in ESG Data Management

- Data Availability and Quality: ESG data is often incomplete or not readily available, especially from smaller companies or in regions lacking mandatory reporting requirements. Moreover, the inconsistencies in reporting standards and subjective metrics can result in unreliable data. Ensuring data accuracy and integrity is critical for informed decision-making.
- Data Standardization: The existence of multiple ESG reporting frameworks (e.g., GRI, SASB, TCFD) with varying metrics complicates data comparability across companies and sectors. This makes the aggregation of data from diverse sources and formats a significant effort.
- Regulatory Compliance: ESG regulations and disclosure requirements are continually evolving. Staying current with these evolvements and ensuring multi-jurisdictional compliance is complex and resource intensive. Unique ESG reporting demands, necessitate tailored data collection and reporting processes.
- Technological Limitations: Adoption of new technology to manage the complex and high-volume data will be required, which can be costly and time-consuming.
- Stakeholder Engagement Addressing the varying ESG information needs of investors, regulators, clients, and internal management requires balancing comprehensive and relevant data provision. Building stakeholder trust necessitates transparent ESG reporting and credible demonstration of the institution's ESG efforts.
- Resource Constraints: Adequate staffing and expertise are essential for effective ESG data management. Recruiting and retaining skilled personnel in this emerging field can be challenging and costly, especially for small to mid-sized institutions.
- Integration with Traditional Financial Data: Integrating ESG data with traditional financial data to provide a comprehensive view of performance involves developing sophisticated data management models, architecture and strategic reporting frameworks.

Addressing these challenges requires financial institutions to adopt advanced technologies, engage continuously with stakeholders, adhere to evolving regulatory standards, and invest in both human and financial resources. Below is a comprehensive guide and best practices that provides a structured roadmap to assist financial institutions in effective ESG data management required to master ESG reporting.

ESG Data Management Roadmap



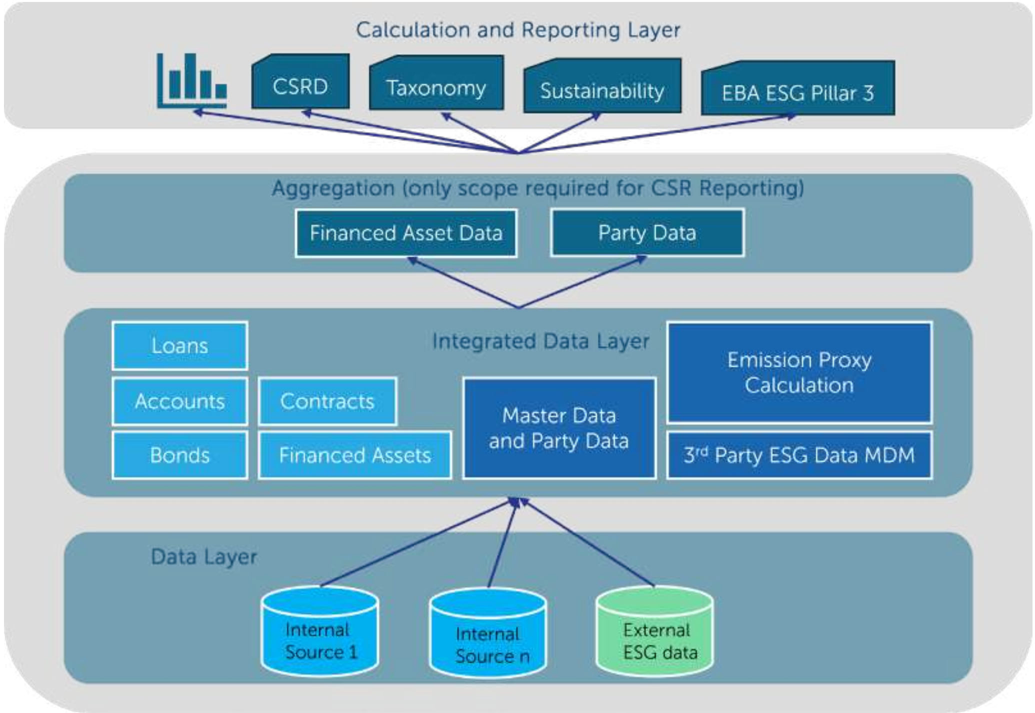
ESG Data Framework

The significance of ESG data within the financial sector has grown substantially. Market participants have initiated numerous endeavours aimed at evaluating climate-related risks and preparing for the adoption of ESG disclosure templates. This process entails detailed collection and aggregation of data from internal sources, clients, and third-party entities. It necessitates the establishment of a centralized data repository capable of accommodating all ESG templates, alongside the development of visualization tools and automated systems tailored for sustainability and ESG reporting. A robust ESG Data Framework serves as the cornerstone for ensuring the integrity and reliability of ESG data.

The collection of ESG data should ideally occur at the most granular level possible. It should also leverage on reliable data sources to minimize use of proxies and fallback methodologies. This approach enhances the accuracy and authenticity of ESG reporting, laying a solid foundation for informed decision-making and transparent disclosure practices.

The below illustration highlights the automation and data framework set-up with detailed description:

Automation and Data Framework



Legend	Description
	Data from every source system of the bank should flow to a central integrated data model
	ESG data such as emissions data, is collected from 3rd party data sources, which are sourced to the central integrated data model
	Direct source data
	Central logic applied to enrich data
	Data is stored in a unified model per product and data type. It is ensured that the transparency is maintained between contracts of different assets and parties, specifically in-case of double-counting
	This data is not ESG specific, but essential for ESG reporting to consolidate and reconcile across reporting streams. Priority rules between conflicting party data from different source systems should be managed efficiently.
	Proxy fallback approaches are applied for estimating or approximating missing or unreliable data, ensuring full coverage in data collection.
	For cases with multiple ESG data providers, priority rules between conflicting ESG metrics for the same party should be managed effectively.
	Aggregation layer enables to differentiate between varied sets/types of data based on contract type and disclose double counting emissions in specific cases (E.g. Financing of real estate asset of an energy producer)
	Separate "Financed Asset Data" metric is required to meet specific data requirements such as EBA ESG Pillar 3 Template 2
	Separate "Party Data" metric is required to meet specific data requirements such as EBA ESG Pillar 3 Template 1

ESG Data Dictionary

Climate-related data often lack standardization, presenting a challenge due to the existence of diverse data models, dictionaries, and taxonomies. To address this, it is imperative to organize the data with standardized definitions that span across various ESG reporting templates. A comprehensive data dictionary is crafted to cover all variables, delineating their definitions, units, and their alignment with respective ESG disclosure templates such as CSRD, Sustainability report, Taxonomy, and Pillar 3. This exercise is conducted to ensure comprehensive coverage of variables across all templates.

A sample excerpt from the data dictionary is as follows:

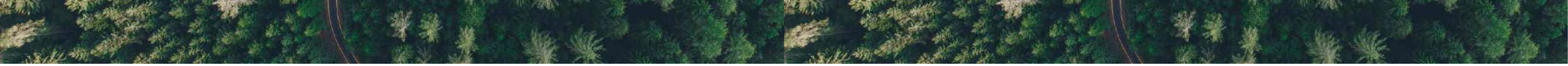
Variable Name	Variable Description	Sustainability Reporting	EBA Pillar 3 Reporting	Taxonomy
NACE sector code	Official NACE sector code of the counterparty		X	
GHG - Scope Emissions	Scope 1, Scope 2, Scope 3 emissions for each counterparty	X	X	
Taxonomy Aligned Activity	Percentage expressing how much of the agreement can potentially be seen as "Taxonomy Aligned"			X

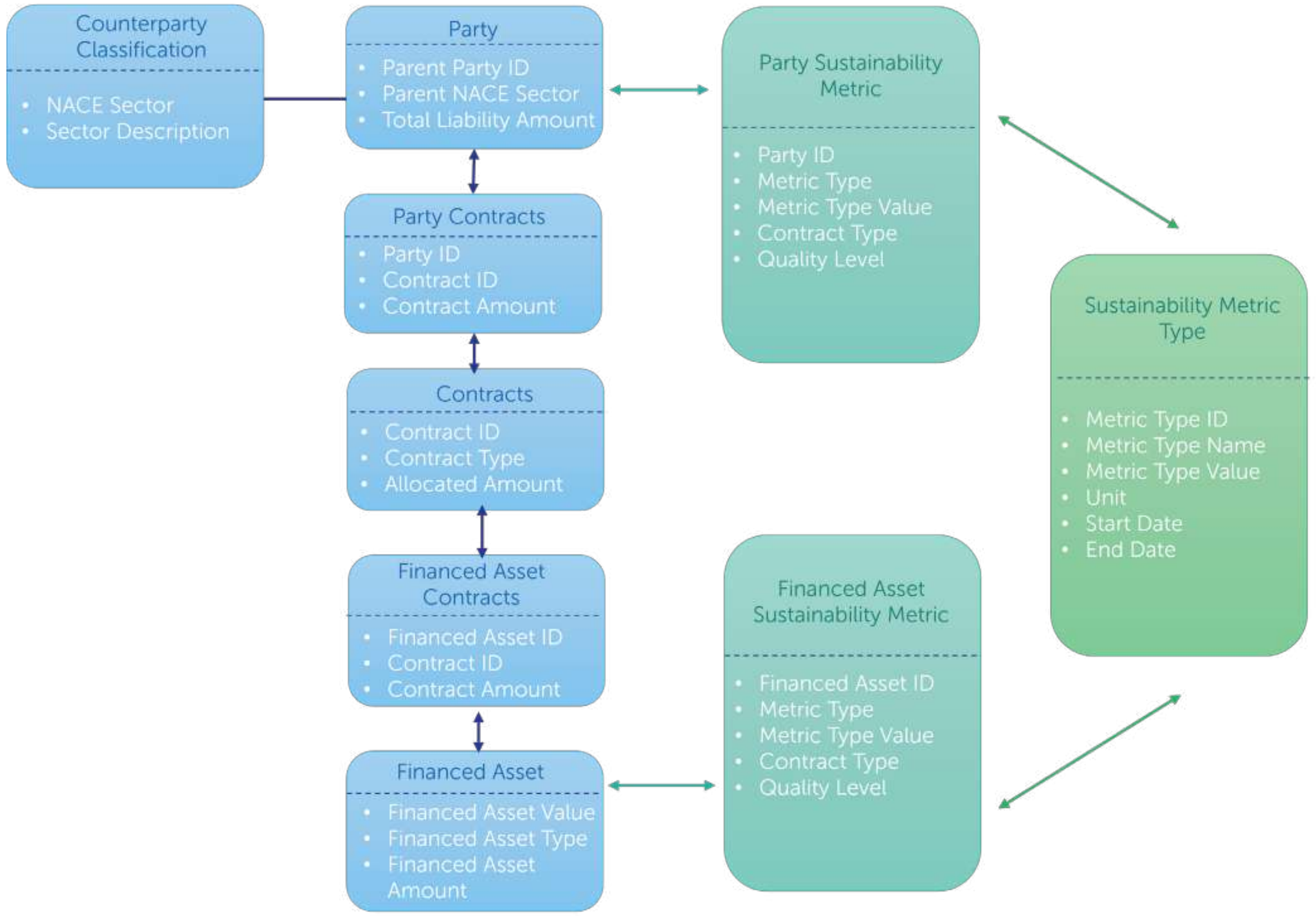
For detailed view of the data dictionary contact Finalyse.

ESG Data Architecture

A carefully designed and optimized data model is pivotal in establishing a streamlined and logical database structure. This model aims to eradicate redundancy, minimize storage overheads, and facilitate swift data retrieval. Central to this process is the precise categorization of data according to portfolio type (counterparties, and asset levels), along with the establishment of robust linkages between disparate metrics. This ensures the seamless availability of data tailored to meet the diverse sustainability requirements across different reporting frameworks. Leveraging this interconnected web of data across various metrics and tables forms the foundation of a robust data warehouse dedicated to ESG initiatives. The process incorporates automation to enhance the efficiency of data extraction, fostering seamless operations and bolstering data integrity.

The graph on the next page illustrates a sample data architecture, emphasizing the agile linkages developed across various tables.





Fallback Methodologies

Access to primary data sources for specific ESG metrics may prove limited. Fallback methodologies serve as alternative strategies for estimating or approximating missing or unreliable data, ensuring comprehensive coverage in data collection. Of course, fallback methods should be as consistent as possible to facilitate meaningful comparisons and evaluations of sustainability performance across timeframes and industry sectors.

Furthermore, regulatory frameworks governing ESG reporting may necessitate companies to disclose certain metrics or indicators, even in the absence of readily available reliable data. Fallback methodologies ensure compliance with those reporting obligations by enabling companies to provide reasonable estimates or proxies for required data points, thereby averting non-compliance penalties or regulatory scrutiny. Suggested fallback approaches as per regulators and industry peers can be the following:

Partnership for Carbon Accounting Financials (PCAF) Fallback:

The Partnership for Carbon Accounting Financials (PCAF) provides a standardized fallback methodology for financial institutions to quantify and disclose the greenhouse gas (GHG) emissions associated with their lending and investment portfolios. The PCAF fallback approach for emissions entails a method to estimate or approximate emissions data when primary data sources are unavailable or incomplete.

Estimation using Statistical Models:

Developing sophisticated statistical techniques to estimate missing values, such as regression models, interpolation, or extrapolation, can effectively address data gaps. For instance, Energy Performance Certificate (EPC) scores can be estimated based on observable characteristics of properties using linear regression models. This approach is also recommended by the European Central Bank (ECB) for EPC score calculations.

Usage of Proxy Data:

When specific data is unavailable, using proxy data from similar regions, industries, or time periods can be an effective alternative. Imagery and remote sensing data serve as valuable proxies for on-ground measurements, particularly for environmental variables like deforestation, land use, water quality, and energy efficiency of buildings. This method is endorsed by the Platform on Sustainable Finance for Taxonomy reporting and the Network for Greening the Financial System (NGFS) in their technical document on bridging data gaps for ESG reporting.

Deploying Advanced Technologies:

Advancements in technology, such as artificial intelligence, machine learning, and satellite data, can significantly enhance data collection and analysis. Public platforms like the World Resources Institute's Global Forest Watch and the European Space Agency (ESA) Climate Data Dashboard provide geospatial and meteorological data. Additionally, open-source platforms like OS-Climate and the collaborative ESA-NASA platform are invaluable resources. Central banks and supervisors are also eager to explore these innovations to improve data accuracy and comprehensiveness.

ESG Data Governance

ESG data governance is essential for ensuring the accuracy and reliability of sustainability reporting. Effective governance provides oversight of data sources, proxy methodologies, and minimizes errors in reports. It also helps financial institutions meet regulatory requirements, manage risks, and make informed decisions by providing high-quality data.

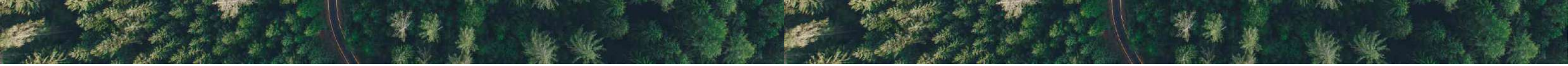
To achieve robust ESG data governance, companies should establish a clear governance framework, develop data policies and standards, implement robust data management processes, utilize advanced technology, and ensure continuous monitoring and improvement. Engaging and training stakeholders, while fostering a culture of accountability and transparency, further solidifies the integrity of ESG data. Ultimately, this drives sustainable growth and builds stakeholder trust.

Conclusion

Adopting best practices in ESG data management, governance, and reporting is essential for companies committed to sustainability. Overcoming challenges in data collection, quality, standardization, and regulatory compliance is vital for achieving accurate and comprehensive ESG reporting. By investing in advanced technologies, enhancing stakeholder engagement, and integrating ESG considerations into core financial practices, institutions can better manage risks and capitalize on emerging opportunities. A strong ESG data management framework not only ensures regulatory compliance but also fosters trust and confidence among investors and stakeholders. Rigorous ESG data management supports the institution's long-term sustainability goals and strengthens its position in a rapidly evolving financial landscape.

How Can Finalyse Help?

- ESG data collection and integration
- Building automation and visualisation tool for ESG data
- ESG data management
- Development of data methodologies
- ESG reporting compliance (Pillar 3, CSRD, Sustainability Report, Taxonomy, TCFD)
- Identification and assessment of material risks
- Establishing governance structure, policies and procedures
- Workshops
- End to end support and guidance



Supervision

Securitisation Framework
EBA (Guidelines)

STS criteria for on-balance-sheet securitisation

The EBA has published its final Guidelines on the criteria for simplicity, standardisation, and transparency (STS) specifically for on-balance-sheet securitisations (OBS). These Guidelines aim to ensure a harmonised interpretation and implementation of STS criteria across the Union, aligning with existing Guidelines for asset-backed commercial paper and non-asset-backed commercial paper securitisation. The Guidelines promote a common understanding and consistent application of STS criteria for OBS securitisations and will apply two months after the last translation.

Release date: 2024-05-27

EBA/GL/2024/05

Supervision
BCBS (Report)

Digitalisation of Finance

The BCBS has published a report on the implications of finance digitalisation for banks and their supervision. This report updates the 2018 "Sound Practices" document, reflecting recent advancements in financial technology. It examines the benefits and risks of new technologies and new tech-enabled banking service providers. The report outlines eight key implications for banks and supervisors, focusing on macro-structural elements, digitalisation themes, and the need for capacity building and coordination.

Release date: 2024-05-16

publ/d575

Climate Risk
BCBS (Consultation)

Climate scenario analysis for Climate-Related Risks

The Basel Committee on Banking Supervision (BCBS) has released a discussion paper on how climate scenario analysis (CSA) can enhance the management and supervision of climate-related financial risks. It highlights the importance of using CSA to assess banks' resilience to climate pathways. The committee seeks stakeholder feedback to improve global banking practices.

Release date: 2024-04-16
Consultation End: 2024-07-15

publ/d572

CRR
EBA (Guidelines)

Guidelines on resubmission of historical data

The EBA has published its final Guidelines on the resubmission of historical data under the EBA reporting framework. These Guidelines establish a unified approach for financial institutions to rectify errors, inaccuracies, or changes in reported data. They emphasize submitting corrected data for the current reporting date and historical data for the previous year. Exceptions to resubmission are outlined, ensuring consistency and quality of data across all financial institutions.

Release date: 2024-04-09
Application Date: 2024-07-09

EBA/GL/2024/04

Risk Management

CRR
EBA (RTS)

On Extraordinary circumstances

The EBA has published its final draft RTS clarifying the extraordinary circumstances under which institutions may continue using internal models for market risk, despite overshootings, as per the FRTB framework. The EBA will determine these circumstances and issue an opinion accordingly. The RTS outline the conditions and indicators for such determinations, developed under Article 325az(10) of the CRR, as amended by CRR3.

Release date: 2024-06-28

EBA/RTS/2024/17

CRR
EBA (RTS)

Amendments to counterparty credit risk standards

The EBA has published the final draft amending RTS on the standardised approach for counterparty credit risk (SA-CCR). This is part of the new roadmap for the implementation of the Banking Package in the EU. The CRR3 expands the EBA's mandate to specify formulas for calculating the supervisory delta of options under the SA-CCR framework. This now includes formulas for commodity options compatible with negative commodity prices, in addition to those for interest rate options compatible with negative interest rates. These changes ensure accurate calculation methods for transactions with single or multiple material risk drivers and determine long or short positions in primary or most material risk drivers in given risk categories.

Release date: 2024-06-24

EBA/RTS/2024/16

CRR
EBA (RTS)

Assessing Materiality in New Market Risk IM Changes

The EBA has published its final draft RTS on assessing the materiality of extensions and changes to new market risk internal models under the FRTB rules. This completes the EBA's roadmap on market and counterparty credit risk approaches. The RTS differentiate between material changes requiring approval from competent authorities and non-material changes needing advance notification. They set qualitative and quantitative conditions to assess the impact of changes on IMA own funds requirements and relevant FRTB IMA components.

Release date: 2024-06-20

EBA/RTS/2024/15

CRR
EBA (ITS)

Pillar 3 disclosure framework

The EBA has published the final draft ITS to implement the latest Basel III Pillar 3 disclosure reforms as part of the new Banking Package. These ITS address new disclosure requirements for output floor, credit risk, market risk, CVA risk, operational risk, and crypto-asset exposures under the CRR 3. The ITS introduces user-friendly IT solutions, templates, and instructions available on the EBA website, facilitating compliance for institutions.

Release date: 2024-06-21

EBA/ITS/2024/05

CRR
Commission (Speech)

European Financial Integration

The European Commission has published the speech by the Commissioner McGuinnes on the european Financial Integration in wich he highlighted several aspects which will need improvement such as the Capital Markets Union (CMU), the EU securitization market, Digitalisation and AI. Furthermore, he announced that the Commission is exploring pan-EU saving products and considering single supervision for a unified capital market. The EU banking sector's role is vital, with commitments to Basel III reforms and delayed market risk rules until January 1, 2026.

Release date: 2024-06-19

SPEECH/24/3362

CRD
Commission (Directive)

Commission publishes CRD6

The OJ of the EU has published the Directive amending the CRD. This directive aims to harmonise the EU banking supervisory framework, focusing on proportional application for small institutions. For third-country branches, it establishes harmonised authorisation requirements and classifies branches based on risk. The Directive also addresses ESG risks, requiring institutions to manage these risks and align with sustainability goals, including net-zero emissions by 2050.

Release date: 2023-06-19
Application Date: 2024-07-09

(EU) 2024/1619

CRR
Commission (Regulation)

Commission publishes CRR3

The OJ of the EU has published the regulation amending the CRR. This new Regulation's objective is to enhance credit, operational, market risk management, and the output floor, implementing Basel III reforms. Credit risk revisions include a more granular risk weight treatment. Market risk updates align with FRTB standards and introduce a simplified approach for medium-sized trading books. Operational risk is streamlined with a new standardised approach. Other provisions include temporary measures to stabilise own funds, enhanced ESG risk reporting, and centralised disclosure platforms to reduce compliance burdens and improve transparency.

Release date: 2024-06-19
Application Date: 2025-01-01

(EU) 2024/1623

CRR
Commission (RTS)

Assessment methodology for the use of IM for Market Risk

The OJ of the EU has published the RTS on the assessment methodology under which competent authorities verify an institution's compliance with the requirements to use internal models for market risk. These RTS ensure clarity on the assessment performed by competent authorities as to guide the implementation of FRTB internal models in EU. In particular, they set out a framework for competent authorities to assess these requirements and focus on three main aspects: governance, the internal risk-measurement model and the internal default risk model.

Release date: 2024-06-17
Application Date: 2024-07-07

(UE) 2024/1085

CRR
EBA (Consultation)

New framework for the operational risk loss

The EBA has launched a consultation on three draft RTS to standardize the collection and recording of operational risk losses. The consultation includes standards for a risk taxonomy providing a list of event types and attributes for recording losses, conditions for exemptions from promptly calculating annual operational risk losses, and guidelines for adjusting loss data following mergers or acquisitions.

Release date: 2024-06-06
Consultation End: 2024-09-06

EBA/CP/ 2024/ 13

BRRD/SRMR
Commission (RTS)

On the minimum requirement for own funds and eligible liabilities

The European Commission has published an Implementing Regulation that amends Implementing Regulation (EU) 2021/763, which details technical standards for supervisory reporting and public disclosure of the minimum requirement for own funds and eligible liabilities. It aligns these standards with recent legislative changes in the CRR and the CRD. The amendments include updates to templates for reporting and public disclosure, reflecting deductions for eligible liabilities and own funds instruments within resolution groups.

Release date: 2024-06-06

C(2024)3624

CRR
EBA (Consultation)

ADC exposures to residential property under CRR

The EBA has launched a public consultation on draft guidelines for acquisition, development, and construction (ADC) exposures to residential property under the CRR. These guidelines specify conditions for assigning a 100% risk weight (instead of 150%) to ADC exposures, including requirements for pre-sale/lease contracts and obligor equity contributions.

Release date: 2024-05-17
Consultation End: 2024-08-19

EBA/CP/2024/12

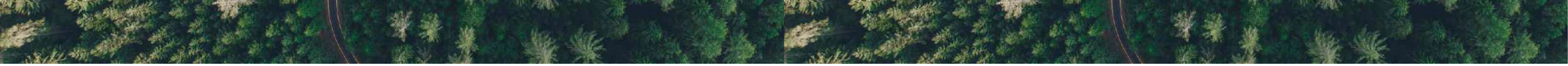
CRR
EBA (Consultation)

Unfinished property under the SA of credit risk

The EBA has launched a public consultation on draft RTS related to the treatment of unfinished property under the CRR standardised approach to credit risk. This initiative is part of the EBA's broader efforts to implement the EU Banking Package, aiming to enhance regulatory robustness in credit institutions. The draft RTS specify conditions for recognizing unfinished properties in the own fund requirements calculation.

Release date: 2024-05-13
Consultation End: 2024-08-17

EBA/CP/2024/11



Supervision
ECB (Guidelines)

Effective risk data aggregation and reporting

The ECB has published a final guide on effective risk data aggregation and risk reporting which details seven key areas banks must address to strengthen risk data practices, such as management responsibilities, data governance, and risk reporting timelines. The ECB emphasises aligning these practices with national laws and the Basel Committee's principles, urging significant institutions to enhance their data governance frameworks.

Release date: 2024-05-03
Application Date: 2024-05-03

ecb.europa.eu

Basel
BCBS (Consultation)

Guidelines for Counterparty Credit Risk Management

The BCBS has published a consultation on guidelines for counterparty credit risk management. The proposed guidelines aim to address longstanding weaknesses in managing counterparty credit risk by emphasising comprehensive due diligence, developing effective credit risk mitigation strategies, employing various metrics for measuring and controlling counterparty credit risk, and establishing robust governance frameworks. These guidelines will replace the Committee's previous publication on interactions with highly leveraged institutions from January 1999.

Release date: 2024-04-30
Consultation End: 2024-08-28

bcbs/publ/d574

CRR
EBA (RTS)

Long and short positions under the derogations for market and counterparty risks

The EBA has initiated a public consultation on draft RTS concerning the identification of the main risk driver and the determination of whether a transaction constitutes a long or short position. These standards are part of the Phase 1 objectives in implementing the EU banking package regarding market risk. The consultation aims to gather feedback on methods for identifying risk drivers and determining position direction, particularly in light of exemptions for small banks from certain calculation methodologies. The draft RTS align with regulatory requirements and propose both general and simplified methods applicable to various financial instruments.

Release date: 2024-04-24
Consultation End: 2024-07-24

EBA/CP/2024/10

CRR/IRRBB
Commission (RTS)

Supervisory Reporting of IRRBB

The Official Journal has published a new regulation updating the technical standards for supervisory reporting of IRRBB. This regulation revises the standards laid out in Implementing Regulation 2021/451, which specifies reporting formats, instructions, frequency, and IT solutions under the CRR.

Release date: 2024-04-24
Application Date: 2024-05-14

(EU) 2024/855

CRD
Commission (RTS)

RTS on CRD

The European Commission has released a Delegated Regulation supplementing the CRD IV. This regulation provides standardised methodologies for assessing risks resulting from potential changes in interest rates affecting the economic value of equity and net interest income in a financial institution's non-trading book activities. The delegated regulation, in line with Article 84(5) of CRD IV, prescribes simplified methods for this evaluation.

Release date: 2024-04-24
Application Date: 2024-05-14

(EU) 2024/857

CRD
Commission (RTS)

RTS on CRD

The OJ of the EU has published a Delegated Regulation supplementing the CRD IV. This regulation focuses on specifying RTS related to supervisory shock scenarios, common modeling, parametric assumptions, and criteria for a large decline. It aims to facilitate supervisory outlier tests for institutions, assessing their exposure to interest rate risk in non-trading book activities and its impact on net interest income and economic value of equity.

Release date: 2024-04-24
Application Date: 2024-05-14

(EU) 2024/856

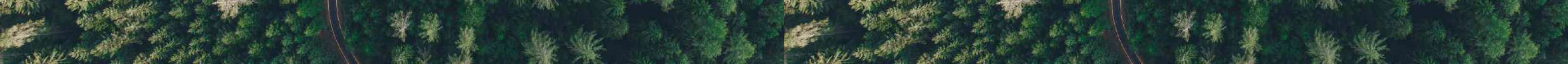
CRR
EBA (Report)

2023 Credit & Market Risk Benchmarking Exercice

The EBA has published its annual assessment of banks internal approaches for calculating capital requirements, focusing on market and credit risk benchmarking exercises for 2023. Results indicate low dispersion in IMVs and a decrease in dispersion in VaR submissions for market risk. For credit risk, RWAs' variability remained stable, with some asset classes showing reductions over time. Additionally, the report highlights progress in implementing the IRB method and the role of collateralisation in explaining variability in LGD.

Release date: 2024-04-12

eba.europa.eu



Recovery & Resolution

Supervision
SRB (Report)

Bail-in approach in the Banking Union

The SRB has published a document detailing its bail-in approach within the Banking Union. This document is intended for banks, investors, and other stakeholders and includes links to the national resolution authorities' mechanics for executing bail-in decisions, in alignment with European Banking Authority (EBA) guidelines.
The document provides clarity on how bail-in mechanisms are applied across different jurisdictions within the Banking Union, aiming to enhance transparency and coordination in cross-border bank resolutions.

Release date: 2024-06-27

[srb.europa.eu]

BRRD/CRR
Commission (ITS)

ITS for the application of the BRRD

The Official Journal of the EU has published an Implementing Regulation amends another Implementing Regulation with technical standards for the CRR and the BRRD. These amendments pertain to supervisory reporting and public disclosure of the minimum requirement for own funds and eligible liabilities.

Release date: 2024-06-07
Application Date: 2024-12-27

[(EU) 2024/1618]

BRRD
EBA (Report)

Additional Tier 1, Tier 2 and TLAC/MREL eligible liabilities instruments

The EBA has published an updated Report on the monitoring of Additional Tier 1 (AT1), Tier 2, and TLAC as well as the MREL instruments of EU institutions. This update offers new guidance on the prudential valuation of non-CET1 instruments and related issuance terms and conditions. Key amendments include the requirement for capital instruments' valuation to reflect their actual loss absorbency capacity, clarifications on prudential treatment of FX effects on AT1 instruments classified as equity, and conditions for simultaneous operation of different loss absorbency mechanisms and trigger levels within the same institution.

Release date: 2024-06-27

[EBA/REP/2024/11]

Governance

CRR
Commission (RTS)

Group of connected clients

The OJ of the EU has published a Delegated Regulation supplementing the CRR. This regulation provides detailed RTS outlining the conditions for identifying groups of connected clients. It specifies criteria for treating closely linked natural or legal persons as a single risk and partially replaces European Banking Authority guidelines on connected clients. The regulation addresses situations involving control relationships and economic dependencies within connected client groups, defining circumstances where all relevant individuals or entities constitute a single risk.

Release date: 2024-06-18
Application Date: 2024-07-08

[(EU) 2024/1728]

Market Environment

Market Trends
EBA (Report)

Q1 Risk Dashboard

The EBA has published its Q1 2024 Risk Dashboard, presenting aggregated data for the largest EU/EEA institutions and insights from the bi-annual Risk Assessment Questionnaire. EU/EEA banks saw increased profitability and capital positions due to wide interest margins. However, credit risks are emerging, with a rise in non-performing loans in Q1. Most banks surveyed expect further asset quality deterioration in commercial real estate, SME loans, and consumer credit over the next 6-12 months.

Release date: 2024-06-20

[Q1 2024]

Data Management

Supervision
EBA (Policy Agenda)

Plan for the implementation of the data point model 2.0

The EBA has announced its plan to implement Data Point Model 2.0 within its reporting release 4.0 framework, enhancing regulatory reporting with more granular data and better version control. The transition from DPM 1.0 will last until December 2025. The framework release 4.0 technical package will be available in December 2024, with a preliminary version in October. A new semantic glossary will also be introduced. By December 2025, the old DPM data dictionary will be discontinued, and the new XBRL taxonomy architecture 2.0 will be mandatory, using the xBRL-CSV format. Each release will include standard specifications and validation rules to support EBA reporting updates.

Release date: 2023-06-05

[eba.europa.eu]

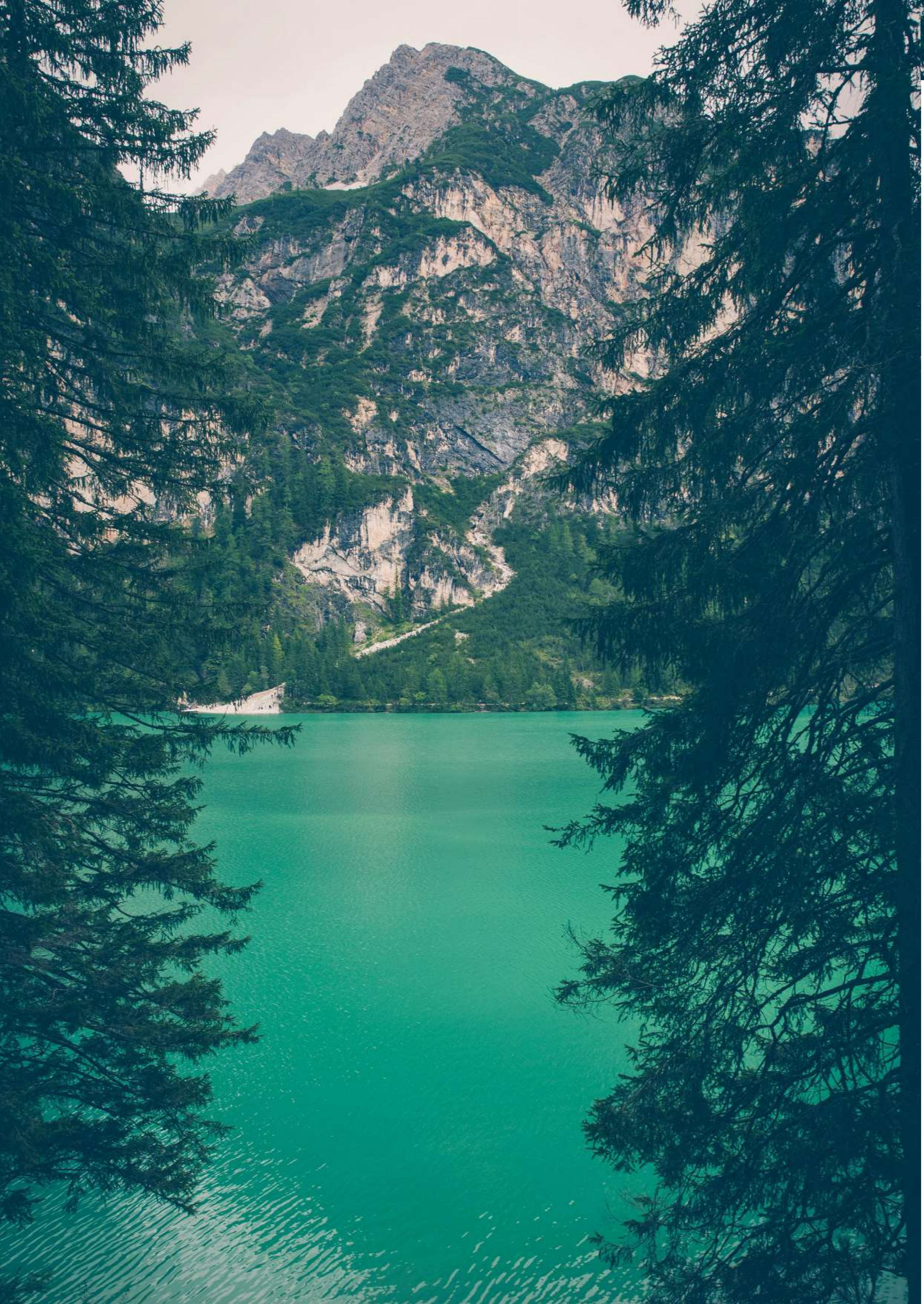
Market Trends
EBA (Risk Dashboard)

Q4 2023 Quarterly Risk Dashboard

The EBA has published its Q4 2023 quarterly Risk Dashboard, which discloses aggregated statistical information for the largest EU/EEA institutions. EU/EEA's banks capitalisation stands at record levels, liquidity has improved, while return on equity stood at 10.3%. Yet, early signs of credit quality deterioration have become more apparent. The publication also includes information on minimum requirements for own funds and eligible liabilities.

Release date: 2024-02-01

[eba.europa.eu]



Insurance

Insurance Regulatory Timeline

2024 Q3

Solvency II
RTS
Technical documents and GLs following the review of Solvency II
Document release: tbd

Guidelines
On integrating ESG factors in risk management
Document release: tbd

Guidelines
On long-term climate risk scenarios under Solvency II
Document release: tbd

Insurance Distribution Directive
Report
Value for Money benchmarks and gathering and processing data received from NCAs
Document release: tbd

IORP
Report
Annual IORP statistics publication
Document release: tbd

Insurance Stress Testing
Stress Test
EU-wide insurance stress test exercise
Document release: tbd

Resolution Directive
Database Update
Update the insurers' failures and near misses database and perform the necessary quality checks
Document release: tbd

2024 Q4

Solvency II
Draft RTS
The reassessment of the Natural Catastrophe risk standard formula capital charges
Document release: tbd

Draft RTS
Include Reporting on Climate change risks in Solvency II reporting disclosure
Document release: tbd

Guidelines
Development of a Proportionality Rulebook
Document release: tbd

ICS
International Standards
Planned adoption of ICS
Adoption Date: 24 Dec 2024

Insurance Supervision
Regulatory Review
Review of EIOPA Guidelines on Supervisory Review Process (SRP)
Document release: tbd

Insurance Supervision
Regulatory Review
Further develop EIOPA's approach on public disclosure of the handbook
Document release: tbd

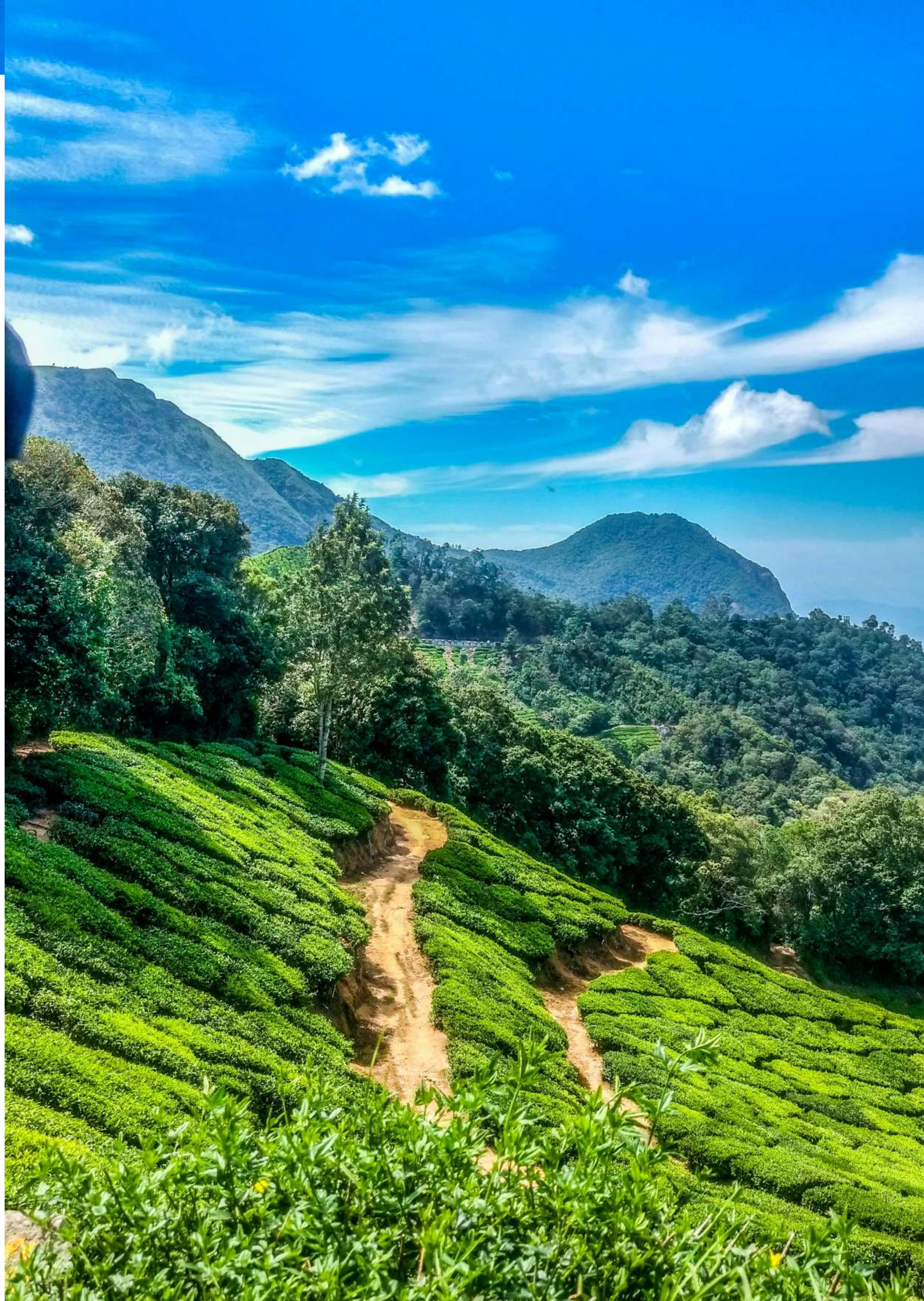
Peer Review
On supervision of technical provisions (TP): stochastic valuation
Document release: tbd

Report
Prepare Annual Report on PEPP Market
Document release: tbd

IORP
Guidelines
On the liquidity risk management of IORPs
Document release: tbd

Report
On roundtable on defined contribution pensions
Document release: tbd

Insurance Stress Testing
Guidelines
On Climate Stress Testing
Document release: tbd



Supervision

Supervision

EIOPA (Report)

2023 Annual Report

The EIOPA has published its Annual Report, detailing its achievements in 2023. Key accomplishments include significant progress in sustainable finance, the integration of digital technologies, the adoption of a new digital strategy to support consumers, markets, and supervisory practices. tthe report also highlights efforts to strengthen supervision and convergence with a focus on reducing consumer detriment, ensuring value for money, and maintaining financial health. EIOPA also supported the Solvency II review, insurance sector recovery discussions, and provided advice on the IORP II Directive.

Release date: 2024-06-14

eiopa.europa.eu

Supervision

EIOPA (Supervisory Statement)

Supervision of Reinsurance with Third-Country Reinsurers

The EIOPA has published its supervisory statement on the supervision of reinsurance concluded with third-country reinsurers. The objective of this supervisory statement is to highlight the risks stemming from the use of reinsurance provided by reinsurers operating under regulatory regimes not recognized as equivalent to Solvency II. Some parts of the statement, where relevant and explicitly stated, apply also to reinsurance arrangements with reinsurers from equivalent third countries.

Release date: 2024-04-04

EIOPA-BoS-24-075

Risk Management

ICS

IAIS (Technical Document)

Data Collection package for the final year of the ICS Monitoring Period

The IAIS Executive Committee has published an initial plan for the implementation of the ICS set for adoption in December 2024. The 2024 ICS data collection package integrates changes based on 2023 monitoring results and public consultation feedback. The ICS will measure capital adequacy for IAIGs, forming the quantitative pillar of ComFrame. With high-level timelines set, the IAIS aims to ensure consistent implementation across jurisdictions, with further methodology development planned for 2025.

Release date: 2024-06-27

iaisweb.org

Stress Testing

EIOPA (Press Release)

Insurance Stress Test 2024

The EIOPA has announced its 2024 stress test exercise for insurers. The 2024 stress test exercise focuses on economic consequences of a re-intensification or prolongation of geopolitical tensions. It evaluates the impact of such a scenario on the capital and liquidity position of European insurers. Although the exercise has a primarily microprudential approach, it is not a pass/fail exercise. Rather, the findings allow EIOPA to make recommendations to the industry and enable supervisors to discuss with insurance undertakings remedial actions as necessary in order to improve their resilience.

Release date: 2024-04-02

eiopa.europa.eu

Market Environment

Market Trends

EIOPA (Report)

Insurance Risk Dashboard

The EIOPA has published its Insurance Risk Dashboard, indicating stable medium-level risks in the EU insurance sector, with some vulnerabilities from market uncertainty and potential real estate risks. Key findings include: Stable macro risks, low GDP growth, and steady credit risks. Market risks from volatility and falling real estate prices. Stable liquidity, funding, profitability, and solvency risks. Increased exposure to non-banking financial activities. Positive premium growth and slight increase in loss ratios. Stable ESG risks. Slight rise in digitalisation and cyber risks.

Release date: 2024-05-16

EIOPA-BoS-24-149

Supervision

EIOPA (Report)

Supervision of Prudent Person Principle under Solvency II

The EIOPA has published the results of its Peer Review on the supervision of the Prudent Person Principle (PPP) under Solvency II. The review focused on supervising investments in non-traditional and complex assets, such as derivatives, especially in unit-linked and index-linked contracts where market risk is borne by policyholders. The EIOPA issued 49 recommended actions to NCAs to enhance supervision and safeguard policyholders' interests.

Release date: 2024-05-05

EIOPA-BoS-24/146

Solvency II

EIOPA (Report)

Market and Credit Risk Comparative Study YE2022

The EIOPA has published findings from its study on market and credit risk modeling in internal models, focusing on EUR-denominated instruments with analysis of selected GBP and USD instruments. With 20 participants from 7 Member States covering nearly all EUR investments by approved internal models in the EEA, the study reveals varying outputs, suggesting the necessity for ongoing supervisory attention, both at national and European levels.

Release date: 2024-04-12

eiopa.europa.eu

Climate Risk

Solvency II

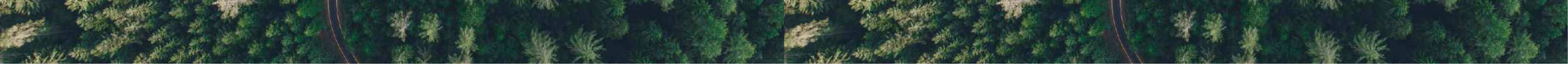
EIOPA (Consultation Paper)

Reassessment of Natural Catastrophe Risk in the Standard Formula

The EIOPA has launched a consultation on reassessing natural catastrophe risks in the standard formula. EIOPA's review of the parameters aims to better capture the risks stemming from perils such as earthquake, flood, hail and windstorm based on new insights, new data and new models that have come online since the last reassessment in 2018. Natural catastrophes are becoming more frequent and more severe across Europe due to climate change.

Release date: 2024-04-03
Consultation End: 2024-06-20

EIOPA-BoS-24/080



ARTICLE

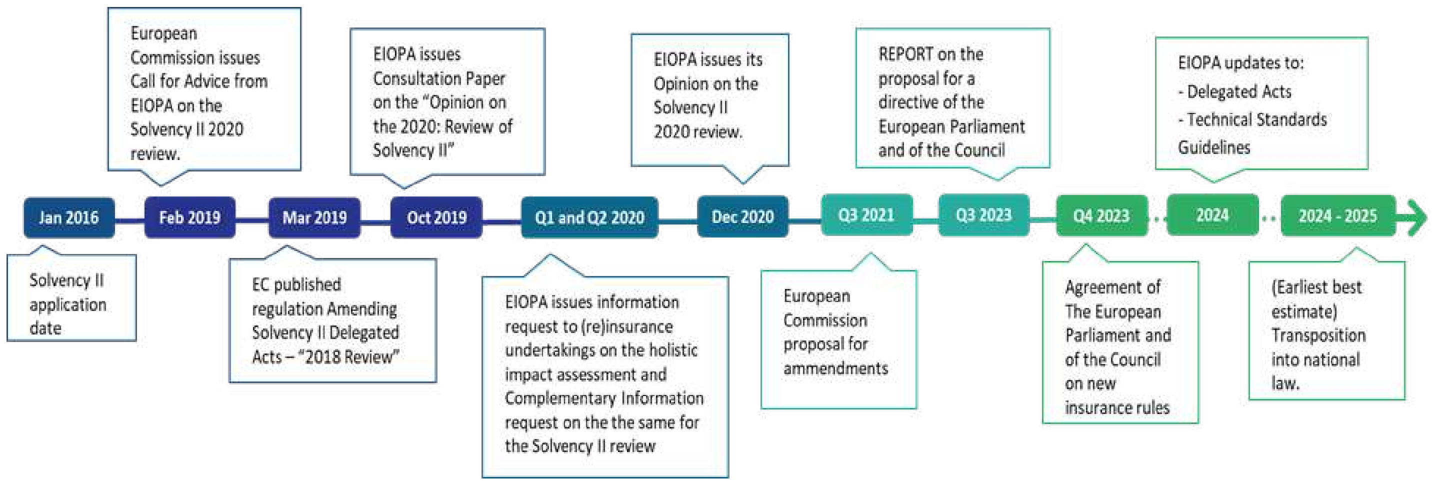
Solvency II Amendments

Written by [Divyank Garg](Senior Consultant) and [Seán Burke] (Senior Consultant)

The ongoing Solvency II Review reached a significant landmark in January 2024, with the European Parliament and European Council publishing their agreed amendments to the Directive .
The review of the Solvency II framework has been underway since December 2020, when EIOPA provided its initial opinion on the review . This was followed by the European Commission (EC) formalising its recommendations in September 2021 . After EU Council shared its views on the proposal in June 2022, the European Parliament's Committee on Economic and Monetary Affairs (ECON) approved the amendments to the Directive over a year later .

While the end is in sight, a number of milestones must be met at European Parliament level before the new Solvency II Directive can be signed into national law across the EU. An implementation date of January 2026 was initially proposed by Econ, but any delays with the remaining steps are likely to push this out further.

Solvency II Review - Timeline



This blogpost will examine the key amendments covered under the final compromise text issued in January, including the following Pillar 1 topics:

- Risk margin;
- Solvency capital requirement under the interest rate risk sub-module;
- Long-term guarantee measures of estimating volatility adjustment; and
- Extrapolation of the risk-free yield curve.

We will also briefly discuss the proposed updates to Pillars 2 and 3.

Pillar 1 Amendments

Risk margin

The initial recommendation to introduce an exponential and time dependent factor, λ (lambda), is upheld in the proposed Directive. Factor λ is to be applied to the risk margin formula, in respect of the SCR amount for year t.

Additionally, the Cost of Capital rate (CoC) is proposed to be reduced to 4.75% (from 6% under the current approach) and shall be reviewed periodically by the EC. The review shall occur at least five years after this amendment, through Level 2 texts, while keeping it within a corridor of 4% to 5%.

The value of the factor lambda is intended to be kept between 0 and 1. EIOPA initially recommended a value of 0.975 for lambda, with an applicable floor of 50% for the time dependent factor. However, the floor of 50% was later removed by the EC in its proposals. Further details for the implementation are expected to be specified in Level 3 texts.

The current and proposed formulae for the risk margin calculation are provided in the Appendix.

Volatility Adjustment

The amendments in respect of the Volatility Adjustment (VA) are broadly in line with EIOPA's recommendations to mitigate the deficiencies in the application of the adjustment. These include:

(i) Increasing general application ratio from 65% to 85% to capture unexpected credit and other risks
(ii) Introducing macroeconomic component for euro-denominated countries in place of the country component to mitigate the existing cliff-edge effect
(iii) Introducing entity-specific Credit Spread Sensitivity Ratio to address the issue of movement in liability values overshooting movement in asset prices

The latest proposal additionally introduces an entity-specific adjustment factor to the Risk Corrected Spread (RCS) of currency, used in the VA calculation. It is equal to the ratio of the RCS calculated on an entity's portfolio of investments in debt to the RCS calculated on a representative portfolio, with the below conditions:

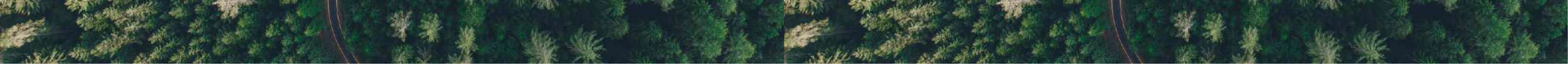
- Approval obtained from supervisor.
- Apply adjustment for no more than two quarterly reporting periods, consecutively.
- RCS based on representative portfolio should exceed RCS based on entity's portfolio of investments in debt, for four reporting periods prior to reporting period of application.
- Macro component of the VA does not apply when using this adjustment.
- Capping of adjustment factor at 105% and cannot be higher than 100% for two consecutive reporting periods.

Also, the deduction for risk correction from spreads will be percentage-based which will decrease as spreads widen. The percentages will be based on the ratio of spreads to the long-term average spreads with a cap on the maximum allowable risk correction.

The current and proposed formulae for the calculation of VA are provided in the Appendix.

Interest rate risk

The proposals in respect of the shocks applicable to calculate the interest rate risk SCR are in line with EIOPA's recommendations. The existing set of shock parameters that are applied multiplicatively have been changed and another set of additive shock parameters have been simultaneously introduced. Also, the proposed formula ensures that the minimum shock of 1% is removed for the



rising interest rate scenario and that negative interest rates are stressed even for the falling rate scenario.

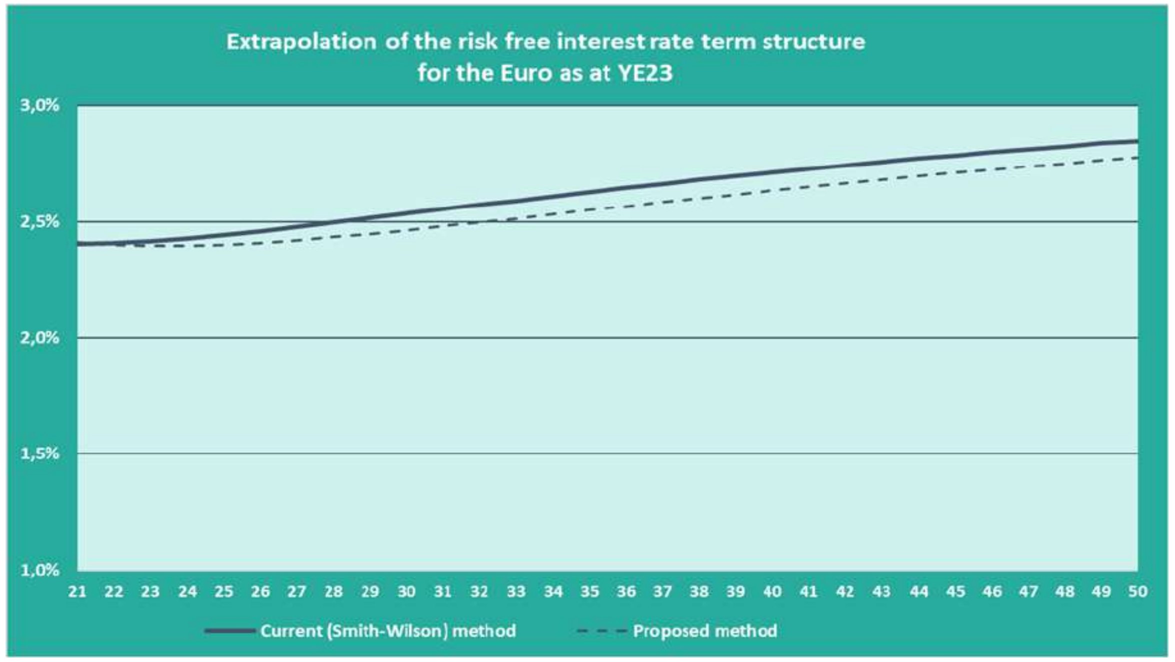
A gradual implementation process is proposed to be grandfathered for the new definition of the downward interest rate shock that should not last longer than 5 years.

Extrapolation of the risk-free yield curve

Amendments proposed in respect of the extrapolation of the risk-free yield curve are broadly in line with EIOPA's recommendations. This will replace the Smith-Wilson method of extrapolating rates from the Last Liquid Point (LLP), to instead converge to an Ultimate Forward Rate (UFR). Under the proposed approach the extrapolation will start from the First Smoothing Point (FSP), which is 20 years for the Euro, at which point bond markets are no longer considered deep, liquid, and transparent.

The extrapolated forward rates shall be set equal to the maturity-dependant weighted average of the Last Liquid Forward Rate (LLFR) and UFR. The amendments also specify that the weight applicable to the UFR shall be at least 77.5% at the point 40 years past the FSP.

The following graph shows the difference between the extrapolated curve under the proposed methodology and the extrapolated curve using the current Smith-Wilson method of extrapolation.



The extrapolated part of the yield curve is slightly lower due to, (a) proposed methodology and (b) recent rate increases. As a result, there will be an incremental effect on the Technical Provisions (TP) for long term liabilities with durations greater than 20 years. As the impact will only be seen beyond the FSP, the amendment will be particularly relevant for annuity providers.

The phasing-in of the method is set to occur between implementation date and 2031, gradually. The parameters shall be decreased linearly at the beginning of each calendar year until final parameters of extrapolation are applied as of Jan 1st, 2032.

Further Pillar 1 amendments

Other Pillar 1 amendments proposed by the EC are as follows:

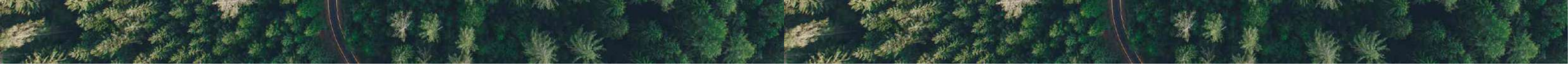
- Restrictions eased around risk diversification between portfolios with Matching Adjustment (MA) and the remaining parts of the business.
- Widening of lower and upper bounds in the estimation of symmetric adjustment that is applicable to equity risk capital requirements. The bounds will widen to ±13% (which seems to have come mid-way between ±10% current and ±17% initially proposed).
- Some amendments have been added in respect of long-term equity investments.

Amendments for small and non-complex undertakings (SANCUs) have also been introduced.

Rules to classify certain (re)insurance undertakings as "small and non-complex undertakings" will be implemented, allowing them to benefit from the use of proportionality measures (with some exceptions introduced by the Supervisory Authority). The below table highlights:

- Measures of proportionality in the latest proposal.
- SANCU criteria for life and non-life undertakings that must be met for two consecutive years prior to classification.

Proportionality measures	
Prudent deterministic valuation - Introduced for contracts with asymmetric options and guarantees in place of scenario-based approach.	
Simplified calculation - Introduced for immaterial SCR risk (and sub-risk) modules with below conditions to be met: • each risk represents less than 2% of BSCR (pre-simplification) • sum of all risk does not exceed 10% of BSCR (pre-simplification)	
Frequency • ORSA reporting reduced from annual to once every two years, and requirements removed for inclusion of climate change scenarios. • Review of written policies carried out at least every five years. • Frequency of the RSR could be extended up to five years, if permitted by the supervisory authority.	
Flexibility - Allow flexibility to assign persons responsible for risk management, actuarial and compliance functions to perform other key functions.	
Exemption - Exempted from quarterly reporting and liquidity risk management program.	
Disclosure - Require only quantitative data to be disclosed as part of SFCR.	
SANCU classification – criteria that must be met for two consecutive years prior to classification	
For life undertakings:	For non-life undertakings:
• Interest rate risk is lower than 5% of Technical Provisions (TPs) gross of reinsurance. • TPs gross of reinsurance and special purpose vehicles are not higher than EUR 1bn.	• Average combined ratio (net of reinsurance) for the last 3 years is less than 100%. • Annual gross written premiums (GWP) from non-life activities are not higher than EUR 100m. • Sum of annual GWP in certain classes are not higher than 30% of total annual written premiums of the business.
Annual GWP from business in states outside of the home country is lower of: EUR 20 million or 10% of total annual GWP.	
Limits on total investments.	
Less than 50% of total annual GWP is reinsured.	



Undertakings managing group pension funds with asset values exceeding EUR 1bn, parent organisations, or undertakings that use approved partial/full internal models are not eligible to qualify as small and complex undertakings.

Pillar 2 Amendments

The Pillar 2 updates include new requirements focusing on governance and risk management, where the latest proposal expands on:

1. Diversity – encouraging undertakings to promote diversity by setting quantitative objectives related to gender balance.

2. ORSA - Additional assessments included in ORSA requirements, including:

- Impact of plausible macroeconomic and financial market developments, including adverse economic scenarios.
- Impact of their overall capacity to settle obligations towards policyholders and other counterparties, as they fall due, even under stressed conditions.
- Consider macroprudential concerns that may affect, inter alia, the solvency needs of the undertaking's specific risk profile.
- Consider undertakings' activities affecting macroeconomic and financial market developments that can be foreseen to turn into sources of systemic risk.
- Assessment of capital requirements with and without MA, VA, or transitional measures, where applicable.

3. Sustainability risks – undertakings to account for the impact of sustainability risks on their investments including long-term impact while deciding on investment strategy. Supervisory authorities shall ensure undertakings have the framework to consider sustainability risks. EIOPA is mandated to explore dedicated prudential treatment of assets or activities associated with sustainability, which involves the submission of a report to the EC on their findings by 30th September 2024.

Pillar 3 amendments

Latest amendments to Pillar 3 topics include a proposal to authorise registered actuaries to provide high-quality audit of TPs, reinsurance recoverables and related items among other audit requirements. Amendments also include changes to the layout of the Solvency Financial Condition Report (SFCR) to consist of two sections along with its external audit requirements. The deadline for submission for annual reporting of the Regular Supervisory Report (RSR) and solo SFCR will be extended by 4 weeks and for annual QRTs and group SFCR, the deadline will be extended by 2 weeks. Deadlines relating to submission of quarterly reports remain unchanged.

Conclusion

The European Parliament and European Council's provisional agreement on the amendments to the Solvency II Directive is intended to enhance the (re)insurance sector in the EU. The package is bundled to include the Insurance Recovery and Resolution Directive (see also, Finalyse blogpost). The agreement reached a conclusion to reduce the CoC for the estimation of risk margin from 6% to 4.75%, following in the UK's footsteps (while remaining well above the more bullish 4%). Also, the EC is empowered to adopt Delegated Acts to reflect risks posed by crypto assets with further information expected in the upcoming texts.

Furthermore, insurers can expect EIOPA to shed light on various aspects of the proposed amendments. These include technical standards specifying elements to be covered in plans, targets and processes relating to sustainability risks, further guidance with respect to the diversity piece, and formulae and parameters relating to amendments to long-term guarantee measures (including method of extrapolation of risk-free rates).

How can Finalyse help you?

The proposed Directive intends to make the SII framework more aligned to the economic outlook and addresses the inadequacies identified in the original review. Finalyse has extensive experience in actuarial and risk management for insurance companies and can help you make sense of the proposals under the Directive. We can offer the following services:

- Gap Analysis – Performing a gap analysis to examine your situation versus latest regulatory requirements and proposals published.
- Roadmap – Developing a roadmap for the integration of proposed changes into your business.
- Workshops – Conducting workshops with the objective to upskill the relevant stakeholders within your business on the proposals by the European Parliament and Council.
- Strategic support – Understanding the SII proposals for your business including the impact on the long-term business strategy.

REFERENCES

1. The proposal issued by the Council of the European Union on 19 January 2024 - https://data.consilium.europa.eu/doc/document/ST-5481-2024-INIT/en/pdf

2. EIOPA Opinion on the 2020 Review of Solvency II - https://www.eiopa.europa.eu/document/download/3c7759d5-a97a-4bc4-bfae-875c5d460d56_en?filename=Opinion%20on%20the%202020%20review%20of%20Solvency%20II.pdf

3. Finalyse article on EC's recommendations on Solvency II Amendments- https://www.finalyse.com/fileadmin/One-pagers/EIOPA_s_opinion_in_the_review_of_Solvency_II_-_Finalyse.pdf

4. Finalyse blogpost on ECON approval to SII amendments - https://www.finalyse.com/blog/econ-approves-solvency-ii-amendments

5. Total Investments should represent at most 20% of:
- Gross market risk module
- Counterparty default risk module for exposure in non-traditional investment assets
- Capital requirement in respect of investments in intangible assets not covered by market and counterparty default risk module

6. The Insurance Recovery and Resolution Directive (IRRD) - https://www.finalyse.com/blog/the-insurance-recovery-and-resolution-directive-irrd

APPENDIX

1. Risk margin: Current and proposed formula for calculation of risk margin.

Current: $$RM = CoC \, . \sum_{t \geq 0} \frac{SCR(t)}{(1 + r(t+1))^{t+1}}$$

Proposed: $$RM = CoC \, . \sum_{t \geq 0} \frac{\lambda^t * SCR(t)}{(1 + r(t+1))^{t+1}}$$

2. Volatility adjustment: Current and proposed formula for calculation of volatility adjustment.

Current

$$VA_{Currency} = 65\%_{GAR} * RCS_{Currency}$$
$$+$$
$$65\%_{GAR} * Max\left(RCS_{Country} - 2 * RCS_{Currency}; 0\right) \text{ only if } RCS_{Country} > 100bps$$

GAR : General Application Ratio
RCScurrency : spread of a representative portfolio, less the fundamental spread specific to the currency
RCScountry : spread of a representative portfolio, less the fundamental spread specific to the country

Formula for Credit Spread Sensitivity Ratio used to calculate VA under proposed approach.

$$CSSR_{currency} = \frac{\left[MV\,@(CS) - MV\,@\left(CS + GAR * RCS^{new}_{xcurrency}\right)\right] \Big/ GAR * RCS^{new}_{currency}}{\left[BEL\,@(RFR) - BEL\,@\left(RFR + GAR * RCS^{new}_{xcurrency}\right)\right] \Big/ GAR * RCS^{new}_{currency}}$$

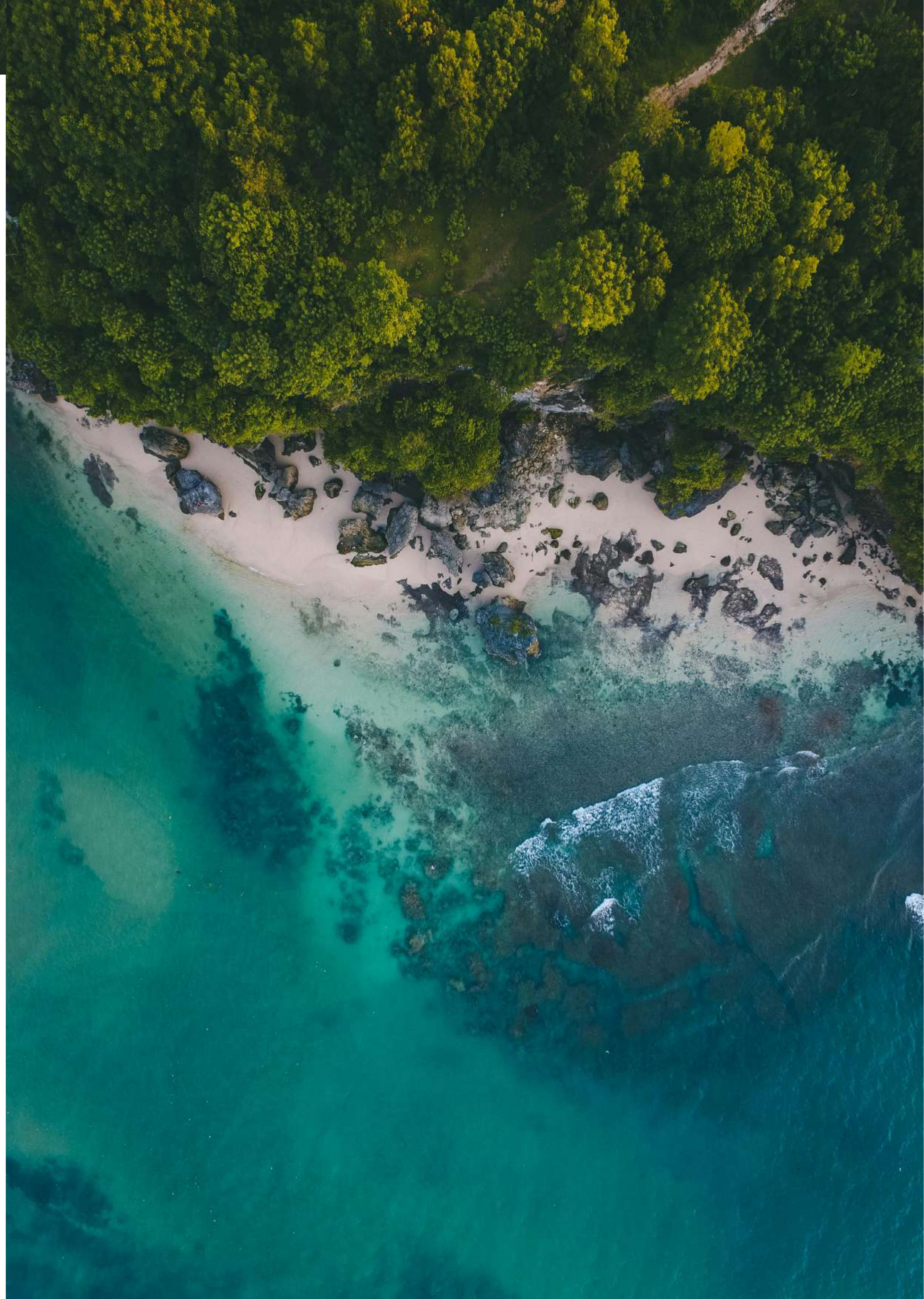
$$RCS^{new}_{currency} = \frac{w_{gov} * RCS_{gov} + w_{corp} * RCS_{corp}}{w_{gov} + w_{corp}}$$

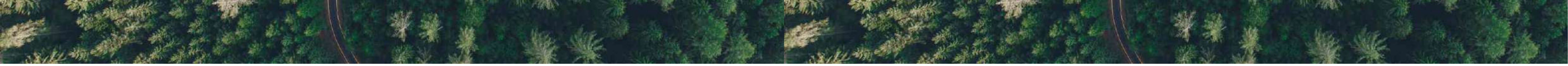
3. Interest rate risk: Formula for estimating interest rate curves for up and down scenario for calculating SCR interest rate under the proposed approach.

$$r(m)^{up} = r(m) * [1 + s(m)^{up}] + b(m)^{up}$$

$$r(m)^{down} = r(m) * \left[1 - s(m)^{down}\right] - b(m)^{down}$$

For different maturities m (in years):
r(m) : risk-free rate at maturity m
rup(m) : rate at maturity m in rising interest rate scenario
rdown(m) : rate at maturity m in declining interest rate scenario
Value for s vector is linearly interpolated between 20 and 90 years
Value for b vector is zero beyond 60 years and is linearly interpolated between 20 and 60 years





ARTICLE

Bermuda Monetary Authority - What will change for Bermuda-based reinsurers

Written by Artjom Altenhof, Senior Consultant.

Background

Due to its business-friendly environment and insurance-related regulation recognized by other major jurisdictions such as the USA, the EU, the UK, Switzerland and Japan, Bermuda has become home to many insurance and reinsurance companies.

Like other regulators, the Bermuda Monetary Authority ("BMA") has also reviewed its requirements to keep up with the recent trends in insurance and to keep its equivalence with Solvency II.

This review introduces a major change to the BMA's requirements, which will materially impact the calculation of technical provisions and capital and governance requirements. In 2023, the BMA introduced the update in two consultation papers where it requested participants' feedback.

This article presents the content of the Consultation Paper 2 and describes the implication for Bermuda-based reinsurers.

Bermudian Regulation Landscape

Before describing *how* the BMA intends to update its regulation, here is a brief overview of the current regulation and a description of *which* parts the BMA is going to update.

It all starts with the Insurance Act 1978- the centrepiece of the BMA's regulation which sets out the principles of insurance regulation. The Insurance Act defines, among others, the role of the BMA, the licensing process and the governance of insurance companies.

In the Insurance Act, the BMA gave itself the power to set rules for calculating technical provisions and capital requirements. These rules are defined in the Guidance Notes and in the Prudential Rules.

The first document specifies the requirements for the calculation of the Economic Balance Sheet ("EBS"), while the second one specifies the rules for the calculation of Technical Provisions ("TP") and the Bermuda Solvency Capital Requirements ("BSCR").

Insurance ACT

EBS Guidance Notes | Prudential Rules

The BMA's 2023 regulation update will have an impact on all three aspects of insurance regulation explained below.

Enhancements to the Regulatory Regime for Commercial Insurers

The BMA's second consultation paper on "Enhancements to the Regulatory Regime for Commercial Insurers" ("CP2") addresses six different aspects of regulation.

The table below illustrates the main changes. This article also includes comments from stakeholders on the CP2 content.

Scenario-Based Approach (SBA) enhancements
- Formalisation of the approval process
- New requirements in the Liquidity Risk Management Programme
- More prudent methodology
- Improved model governance and internal controls
- Formalisation of Model Risk Management
- Requirement to have a Data Quality policy

Risk margin
- Calculation on an unconsolidated basis

Discounting rates
- Use of EIOPA EUR curves

New adjustment framework
- Formalisation of the adjustment framework

Other underwriting and *Expense* risks
- Split of Other underwriting risk in Lapse and Expense risks
- Changes in Expense risk

Man-made risk
- Introduction of a new BSCR module

Enhancement to the Scenario-Based Approach

The update of the Scenario-Based Approach is the proverbial elephant in the room. The BMA introduced a major overhaul of its SBA regulation. The primary goal is to formalize the existing regulation rather than fundamentally change it, but, as a side effect, it might increase the value of technical provisions.

Reminder:

SBA allows insurers to use a higher rate for discounting policyholders' liabilities by benefitting from the locked-in illiquidity premium.

Only high-quality assets with predictable cash flows and hedging derivatives are allowed to back policyholders' liabilities.

The proposed enhancements should be considered as new regulation and not as a change to existing regulation, so it can't be grandfathered. Therefore, they apply to both existing and new business from the first filing date post-implementation of 31 March 2024.

When the SBA liability portfolio operates as a flow reinsurance transaction, any new policies from the original cedant will be considered new business for the Bermuda insurer.

The calculation of the Lapse Cost and the uncertainty margin in the calculation of Default and Downgrade costs are the only aspects that can be grandfathered.

Approval Process

All new SBA models must be approved by the BMA. The existing models can remain in use unless there is a material change to the related requirements.
Insurers have to submit to the BMA an extensive application package which has to include the following information:

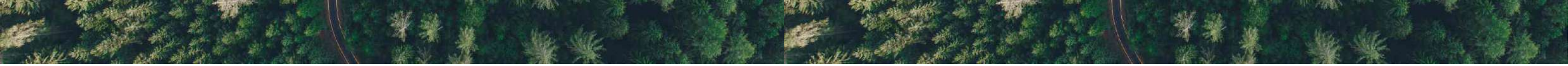
- Evidence that requirements are met.
- Completed SBA reporting template.
- Full SBA model calculations.
- Stress tests.
- Documentation about SBA process, data, methodology, assumptions, governance, model change policy and validation report.
- Model risk management.
- Overview of systems, infrastructure and people resources.
- External dependencies (vendors and consultants).

To increase the chance of an approval, the BMA advises insurers to engage in a discussion with them prior to their application.

Liquidity Risk Management Programme

The insurers wanting to back liabilities with high-yield illiquid assets will be expected to prove that they have sufficient liquidity to pay off policyholders in any realistic scenario.

1. Governance framework: The board should establish a framework for liquidity governance and risk appetite which is in line with the relevant stress tests. The framework should establish clear, proportionate and forward-looking liquidity metrics and thresholds for the first- and second-line functions which enable the board to make the right decisions.
2. Documentation: All upcoming cash needs should be documented together with the corresponding source of liquidity. Ideally, companies should have at their disposal a liquidity buffer that is in line with their liquidity appetite.
3. Stress testing: Insurance companies should demonstrate that they manage their liquidity



1. risk through stress testing. The testing should cover all possible shock scenarios: insurer-specific and market-wide, fast-moving and sustained The liquidity breaking points should be identified (reverse stress testing).
2. **Contingency plan:** Insurance companies should prepare a liquidity contingency plan in case they run out of liquidity. This report provides a guidance on how insurers should meet their liquidity deficits and should be regularly reviewed and updated.

Governance and internal controls

The BMA wants companies to have a governance framework for the SBA process. The main features of the SBA governance framework are:

- The board should approve the use and the modifications of the SBA model.
- The board is responsible for the appropriateness of the model.
- The SBA model committee should be established.
- Model risk, model change and data quality policies should be implemented.
- The model policy should distinguish between major and minor changes and changes triggered by scope expansion.
- The roles of the control function should be defined.
- Conflicts of interest should be prevented.
- Systems, infrastructure and resources should be adequate.
- Adequate and effective controls should be established.
- Outsourcing is generally discouraged and subject to BMA approval.

Model Risk Management

The SBA model deserves its own risk management framework. A model inventory should be created covering all models in use, including the downstream and upstream models.

The model should be extensively tested during development. In addition, a formal model validation before the initial use or after a material change is required. The validation should cover both in-house and external models as well as feeder models and should be repeated every three years as per the BMA's expectations. First-line teams and internal audit should also review the model.

Lapse Risk

An unexpected increase in lapse rates can break the link between assets and liabilities. Therefore, insurers should model the lapse risk as accurately as possible, also considering the interest rate sensitivity of policyholders' behaviour.

If policyholders have the possibility to lapse their policies, the insurance company should demonstrate that the lapse risk is insignificant. The BMA asks that the following three conditions are met:

1. The Best Estimate of Liabilities should be increased by the value of Lapse Cost. This is proportionate to the deviations between historic and expected lapse rates.
2. The Enhanced Capital Ratio should remain above 100% in the case of a permanent increase or decrease in lapse rates by 40%.
3. The Liquidity Coverage Ratio remains above 105% during a three-month long mass lapse stress. The BMA specifies the liability outflows which are dependent on time restraints and economic penalties for policyholders (the more the policyholder has to wait and the higher the economic penalty, the less risk there is for the insurer). The BMA also specifies the haircuts to apply to assets backing the liabilities which are either a fixed percentage or a function of the weighted average life of the bond (see annex).

Insurers are already required to correctly model optionality or behavioural components included in assets such as call options for bonds or prepayments for mortgages. Additionally, the BMA is going to introduce more reporting requirements and sensitivity stresses to increase the transparency.

Unsellable Assets

Unsellable assets cannot be sold to meet the SBA requirements. Companies should manage their reinvestment strategy in order to avoid liquidity shortfalls. If ineligible assets (i.e. BB-rated bonds) mature, they should be replaced with sellable and eligible assets rather than with illiquid assets.

Default & Downgrade Costs

The principle behind the SBA is to allow insurers to discount liabilities with the yield of their investment portfolio. It is accepted that insurers can take advantage of the illiquidity premium locked in in their assets, but the spreads should be adjusted for the default and downgrade (D&D) costs.

The BMA estimated the default costs by analysing the realised past default. The downgrade costs are obtained by adding an uncertainty margin to the baseline default costs. The BMA has already published default and downgrade costs for the following asset classes:

- 1st Lien Bank Loans
- Other Bank Loans
- Secured Bonds
- Senior Unsecured Bonds
- Subordinated Bonds

Stakeholder's feedback:

The D&D costs for structured products are deemed to be too conservative, but the BMA wants to keep them.

For other asset classes, insurers should determine the D&D costs themselves following the same principles the BMA applied in determining these costs for the asset classes mentioned above. The D&D costs should be well justified and prudent.

Grandfathering:

The introduction of the uncertainty margin (downgrade costs) can be gradually introduced over five years. The transition is limited only to existing business.

Transaction Costs

Realistic transaction costs must be applied to all assets sold and bought within SBA projections.

For publicly-traded assets, the historic bid/ask spreads should be reflected. For illiquid assets, the bid/ask spread should be estimated, and shouldn't be lower than the spread for more liquid assets.

Insurance companies should also reflect the impact of the transaction on the price if their holding is relatively large compared to the overall size of the market. Any additional transaction costs should also be considered.

Affiliated Investments

If (re)insurers want to use investments in affiliated counterparties for SBA purposes, they will be required to obtain the BMA's approval on an ongoing basis.

Stakeholder's feedback:

Stakeholders asked for an exemption for investments in modified coinsurance accounts, but the BMA refused to grant it.

Ring-Fencing Assets

Insurers should separate assets backing SBA liabilities. This implies separate reporting for these assets and controls that all cashflows from the SBA-backing portfolio are used for the benefit of SBA liabilities.

Model Documentation

Third parties should be able to understand the SBA model. Therefore, companies should introduce a documentation which covers at least:

- The description of the SBA model including data, assumptions, parametrisation, expert judgement and theory.
- The model governance (roles, sign-offs, updates, validation, review).
- The IT infrastructure.
- The simplifications and limitations.
- The interaction with other models.

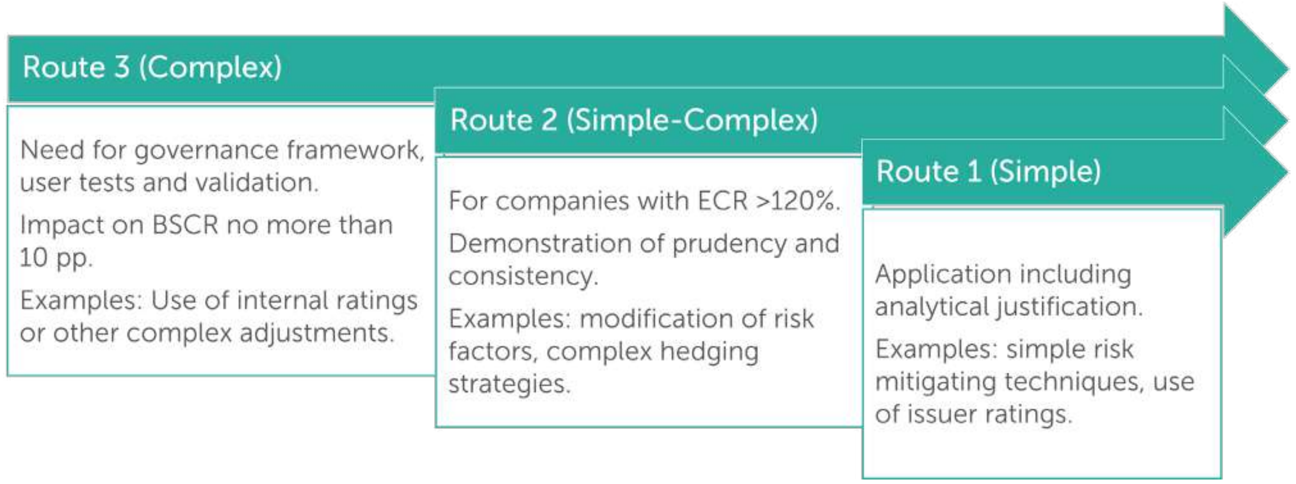
Data Quality

Insurers should have a data quality policy in place which assures that the assets and liability data is adequate for SBA modelling. At a minimum, the data should be complete, accurate, and appropriate. Any external data used, in addition to fulfilling the above requirements, should also satisfy the additional requirements mentioned in the CP2.

Updates to the Adjustment Framework

Insurance and reinsurance companies may want to deviate from the BMA's official rules when they believe that they are inappropriate. The adjustment may be minor like the use of hedging derivatives, company specific parameters or issuer instead of issue ratings, but they may also be complex such as the use of internal ratings for illiquid loans which would require a whole governance framework.

With the CP2, the BMA adds more definition, standardisation, and transparency to the current adjustment framework (Section 6D of the Insurance Act 1978). Depending on the complexity of the adjustment, insurers will have to follow one of the proposed routes. The BMA return will include a new schedule summarising all the adjustments.



Underwriting Risk Updates

Other Insurance Risk (Lapse and Expense)

The BMA aims to increase risk sensitivity and transparency of the underwriting risk charges.

The "*Other insurance risk*" module will be broken down into separate "*lapse*" and "*expense*" risk sub-modules and the correlation matrix for aggregating insurance risk will also be modified and expanded accordingly.

Stakeholder's feedback:

The BMA is going to issue further instructions for SBA users to decrease volatility due to new Mass Lapse risk requirements.

Catastrophe Risk

The BMA plans to refine the catastrophe risk module by including a dedicated man-made catastrophe risk sub-module. The sub-module will be comprised of scenarios for the following four perils: Terrorism, Credit & Surety, Marine, Aviation.

Solvency II and International Capital Standards scenarios are maintained for the *Credit* and *Surety Catastrophe* risk charge.

Risk Margin

Currently, the Risk Margin is calculated on the consolidated group level. This implicitly includes diversification benefits between entities because the sum of individual entities' Risk Margins is likely to be higher than the diversified Risk Margin of the Group. However, in practice, it can happen that only one entity is sold to another company.

Stakeholder's feedback:

Companies expressed concerns about the theoretical soundness and the operation burdens of the change, but the BMA sticks to the proposal.

Therefore, the BMA requires that the risk margin should be calculated at entity level. Simplifications are still allowed when properly justified.

Discounting Curves

The insurance companies will be allowed to apply the EIOPA EUR risk-free rates that will help to reduce the operational costs and increase the comparability for companies subject to Solvency II regulation.

Conclusion

The changes brought by the CP2 represent the largest overhaul of the Bermudian insurance regulation in recent years. Especially companies applying SBA will be seriously impacted.

The trial run has shown that the TP, and BSCR figures of life insurers will move significantly. However, one should not only look at the numbers, but also consider the increased operational costs of the new rules on governance or IT.

Finalyse has extensive experience with Bermudian and Solvency II regulations along with IFRS 9 and 17 accounting standards and can assist you with their implementation and your business compliance. Partner with us to prepare for the upcoming regulatory changes:

- Gap Analysis – Performing a gap analysis to examine your situation versus the latest regulatory requirements.
- Roadmap – Developing a roadmap to integrate the regulatory changes into your business.
- Workshops – Conducting workshops with the objective to upskill the relevant stakeholders within your organisation on these topics.
- Strategic support – Understanding the BMA

Annex

	Time Restraint					
	Low (less than < 1 week)		Medium (between 1 week and < 3 months)		High (more than > 3 months)	
Economic penalty	Retail	Institutional	Retail	Institutional	Retail	Institutional
Low (no economic penalty)	25%	50%	12.50%	25%	0%	0%
Medium (less than 20% economic penalty)	12.50%	25%	6.25%	12.50%	0%	0%
High (more than 20% economic penalty)	0%	1.25%	0%	0%	0%	0%

Figure 1 Liability outflows in case of a mass lapse stress.

Liquidity Source Type (unencumbered)	Liquidity Tier	Haircut
Cash and currency on hand	1	0%
Demand deposits	1	0%
Publicly traded equity	3	65%
Certificates of Deposit	3	60%
Undrawn committed lines	3	90%
Investment funds: Liquid mutual and Money Market Funds	3	85%
Investment funds: Liquid Exchange Traded Funds	3	90%
Sovereigns rated AA- and above	1	0.70% * WAL
Sovereigns rated BBB- and above	1	1.40% * WAL
Public Corporates rated AA- and above	2	1.40% * WAL
Public Corporates rated BBB- and above	2	1.50%* WAL

Figure 2 Eligible liquidity sources

Asset Management

Asset Management Regulatory Timeline

2024 Q2

EMIR
ITS
Formats, Frequency and Methods and Arrangements for Reporting
Application date: 29 Apr 2024

RTS
Procedures for the Reconciliation of Data Between Trade Repositories
Application date: 29 Apr 2024

RTS
Minimum Details of the Data to be Reported - EMIR REFIT
Application date: 29 Apr 2024

RTS
Deferred Date of Application for Non-centrally Cleared OTC Derivatives Which are Single-Stock Equity Options or Index Options
Application date: 29 Apr 2024

MiCA
Guidelines
And technical standards
Application date: 29 Apr 2024

IFR
Guidelines
On calculation of K IRB for dilution and credit risk
Document release: tbd

MiCAR
Guidelines
EBA guidelines on Stress Testing under MiCAR
Document release: tbd

2024 Q3

MiCA
Report
On potential ways of regulating NFTs
Document release: tbd

Regulation
Most of the provisions of MiCA
Application date: tbd

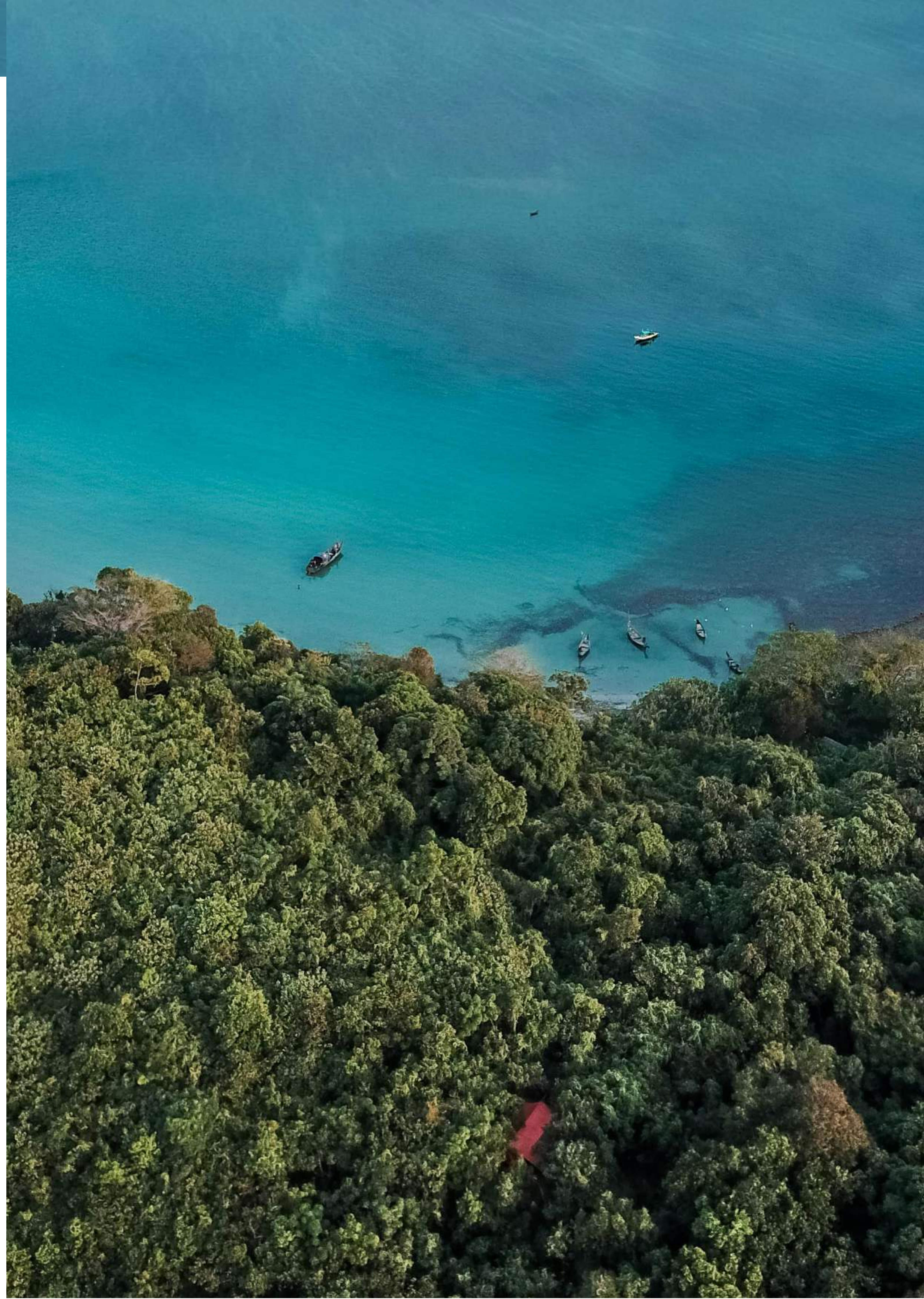
2025 Q2

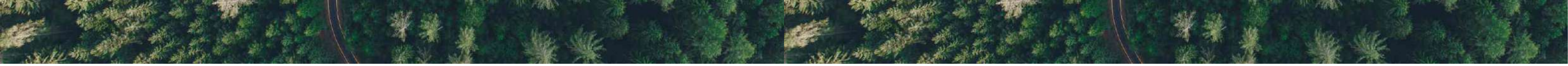
EMIR
Directive
Margin requirements to apply to intragroup transactions
Application Date: 30 June 2025

EMIR
Directive
Clearing Obligations to apply to intragroup transactions
Application Date: 30 June 2025

2026 Q2

AIFMD2
Directive
Application of the new Amending Directive
Application Date: 16 April 2026





Risk Management

MMF Regulation
CSSF (Circular)

Guidelines on stress test scenarios

The CCSF has published a circular in which it announced the application of ESMA guidelines on stress test scenarios under the MMFR. The guidelines include updates to the methodology for implementing scenarios related to changes in liquidity levels and the annual calibration of risk parameters. Notably, the revised methodology incorporates parameters reflecting liquidity stress and introduces a new risk factor simulating the impact of asset sales under stressed market conditions.

Release date: 2024-04-24
Application Date: 2024-06-30

CSSF 24/857

ELTIF
ESMA (Opinion)

ESMA proposes changes to ELTIF RTS

The ESMA has responded to the European Commission's request for amendments to the European long-term investment fund (ELTIF) Technical Standards. ESMA suggests a limited number of changes to strike a balance between protecting retail investors and supporting capital market union objectives. Specifically, ESMA proposes adjustments to the calibration of requirements related to redemptions and liquidity management tools, differing slightly from the Commission's stance.

Release date: 2024-04-22

ESMA34-1300023242-167

IFD
EBA (Guidelines)

Group Capital Test for Investment Firms Group

The EBA has published the final Guidelines aimed at standardising the application of the group capital test for investment firm groups across the EU. These Guidelines establish consistent criteria to address variations in how the test is applied, ensuring fairness in the market. They outline criteria for assessing group structure simplicity and risk significance, with simplified assessments for small, non-interconnected firms. Both quantitative and qualitative criteria are included, covering factors like the number of entities and levels within a group, as well as clear ownership structures.

Release date: 2024-04-11
Application Date: 2025-01-01

EBA/GL/2024/03

Governance

IFR
Commission (RTS)

Prudential consolidation of an Investment Firm Group

The Official Journal of the EU has published a Delegated Regulation supplementing the IFR with RTS specifying the details, scope and methods for prudential consolidation, focusing on calculating the fixed overheads requirement, the permanent minimum capital requirement, and the K-factor requirement based on the consolidated situation of the investment firm group. Additionally, the RTS outline the method and necessary details to implement Article 7(2) of the IFR.

Release date: 2024-06-25
Application Date: 2024-04-07

(EU) 2024/1771

Supervision

IFD/IFR
EBA/ESMA (Consultation)

Review of the investment firms prudential framework

The EBA and the ESMA have published a discussion paper to gather feedback on the potential review of the investment firms' prudential framework. This consultation seeks stakeholder input to inform the European Commission's call for advice. The paper examines the adequacy of current requirements, methodology, and risks not covered by the existing framework. It also considers the implications of the new EU Banking package, prudential consolidation, crowdfunding, and crypto-assets service providers.

Release date: 2024-06-03
Consultation End: 2024-09-03

EBA/DP/2024/01

MiFIR
ESMA (Consultation)

MiFIR Review Consultation Package

The ESMA has launched a public consultation under the MiFIR review, focusing on non-equity trade transparency, reasonable commercial basis (RCB) for market data, and instrument reference data. The goal is to enhance stakeholder information by improving and harmonising transparency in capital markets. The ESMA seeks input on pre- and post-trade transparency for non-equity instruments, ensuring fair access to market data with cost-based fees, and aligning instrument reference data with international standards.

Release date: 2024-05-21
Consultation End: 2024-08-28

ESMA74-2134169708-7241

Climate Risk
ESMA (Guidelines)

Funds names using ESG or sustainability-related terms

The ESMA has published new Guidelines to standardise the use of ESG and sustainability terms in fund names. Funds must have at least 80% of their investments meeting environmental, social, or sustainable objectives to use these terms. Specific exclusion criteria apply to terms like "Environmental," "Impact," and "Sustainability," aligning with Paris-aligned Benchmarks, and to "Transition," "Social," and "Governance," aligning with Climate Transition Benchmarks. Additional criteria apply for combined terms and funds using reference benchmarks. The Guidelines will be effective three months after publication in all EU languages.

Release Date: 2024-05-14

ESMA34-472-440

Market Environment

Market Trends
FSB (Report)

Resilience of CP and Negotiable of CD Markets

The FSB has published a report on enhancing the functioning and resilience of commercial paper (CP) and negotiable certificates of deposit (CD) markets. This report follows the 2021 report on money market fund resilience. The report found that markets function well normally but can become illiquid during stress. It proposes reforms such as improving market microstructure, enhancing reporting and transparency, and expanding private repo markets.

Release date: 2024-05-22

P220524

Cross sector

Cross-sector Regulatory Timeline

2024 Q3

Sustainable Finance
Report
Annual report under Article 18 SFDR
Document release: tbd

Guidelines
Guidelines on ESG risk management (pending CRR III deadline)
Document release: tbd

Securitisation Framework
Report
JC Report on the implementation and functioning of the Securitisation Regulation
Document release: tbd

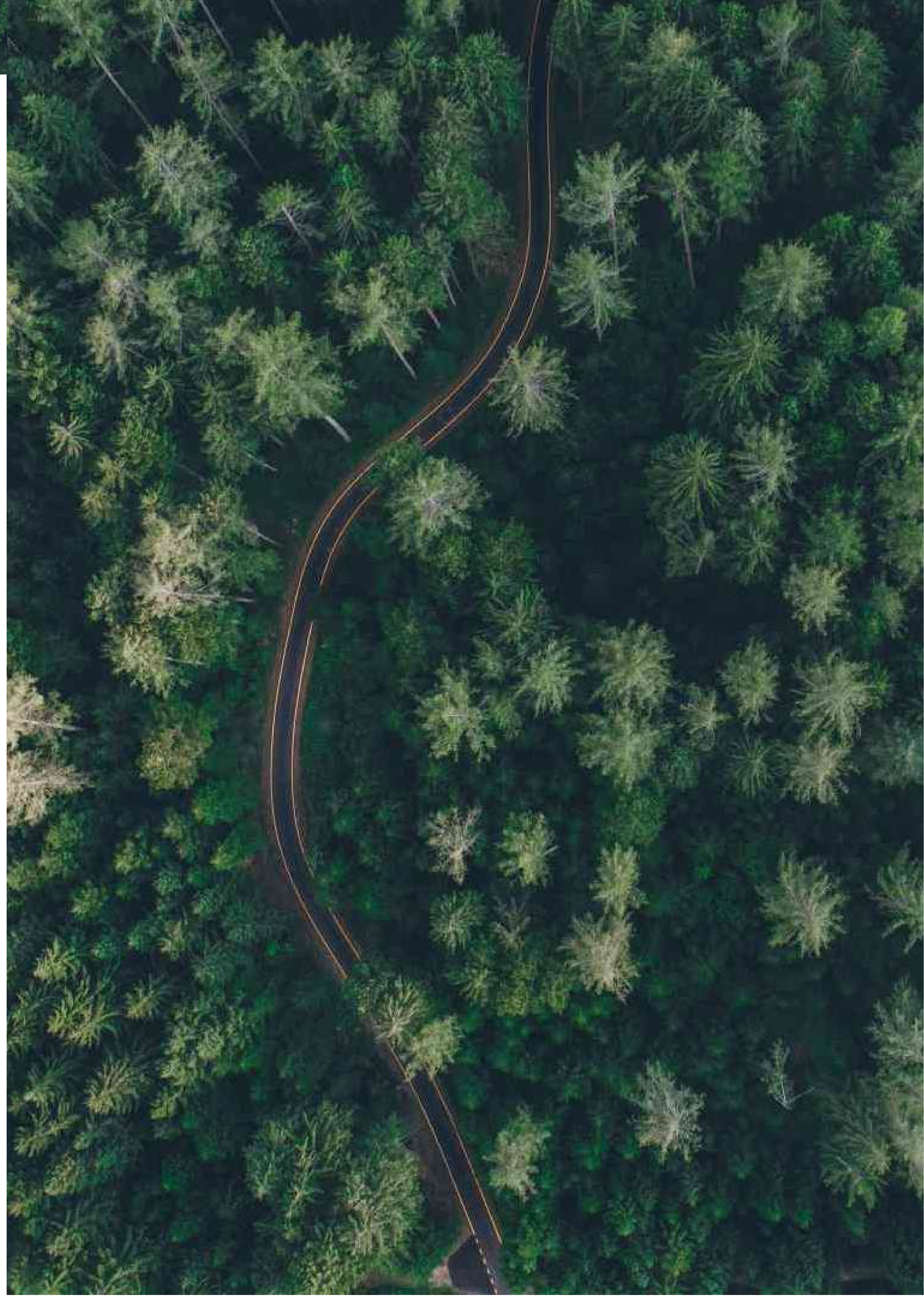
2024 Q4

Sustainable Finance
Report
Pillar I report on sustainable Finance
Document release: tbd

Thematic Review
To be aligned with supervisory expectations, including integration of C&E risks in stress testing framework and ICAAP
Application date: 31 Dec 2024

2025 Q1

Sustainable Finance
Delegated Regulation
The Commission to include crypto-asset mining in the economic activities that contribute to climate change mitigation
Application date: 1 Jan 2025



Supervision
ESMA (Report)

Annual Report

The ESMA has published its 2023 annual report highlighting its efforts to enhance investor protection and promote stable EU financial markets. Key achievements include reducing investment costs for retail investors, conducting a mystery shopping exercise under MiFID, and issuing crypto asset risk warnings. The ESMA coordinated with national supervisors to respond to geopolitical and economic challenges and collaborated with the EBA and EIOPA on the DORA. Preparations for the MiCA included fostering consistent authorisation and supervision. The ESMA also assessed greenwashing risks, identifying material risks and outlining remediation actions.

Release date: 2024-06-14

[ESMA22-50751485-1453]

MiCAR
EBA (RTS)

Regulatory Products Under MiCAR

The EBA has released a set of technical standards and guidelines under the MiCAR. These focus on prudential matters like own funds, liquidity requirements, and recovery plans for issuers of asset-referenced tokens and money tokens. The package includes final draft RTS on own funds requirements and stress testing, the procedure for adjusting own funds, liquidity requirements, highly liquid financial instruments, and the minimum content of liquidity management policies. Additionally, guidelines on recovery plans specify their format and content.

Release date: 2024-06-13

[eba.europa.eu]

MiCAR
EBA (Press Release)

Governance Regulatory Products Under MiCAR

The European Banking Authority has published three regulatory products under the MiCAR to enhance the regulation of the crypto-assets market. These include guidelines on governance arrangements for issuers of asset-referenced tokens (ARTs), RTS on remuneration policies for issuers of significant ARTs and e-money tokens, and RTS on managing conflicts of interest for ART issuers. Developed in collaboration with the ESMA and the ECB, these products aim to ensure transparent and secure governance within the crypto-assets market.

Release date: 2024-06-06

[EBA/GL/2024/06]

MiFID
ESMA (Consultation)

Technical standards for commodity derivatives

The ESMA has launched a public consultation on proposed changes to position management controls and position reporting rules under the MiFID II review. The consultation seeks feedback on extending position management controls to emission allowances derivatives, excluding emission allowances from position reporting, and introducing a weekly position report.

Release date: 2024-05-23
Consultation End: 2024-08-21

[ESMA74-2134169708-7006]

EMIR
ESMA (Report)

Quality of Data used under EMIR

The ESMA has published a follow-up report to its 2019 peer review on improving data quality under EMIR. The report highlights significant improvements in supervisory practices among five NCAs. Measures include implementing data quality dashboards, conducting more detailed checks, and integrating EMIR data into daily supervision. The ESMA has coordinated efforts at the EU level, ensuring a framework for data provision and addressing quality issues.

Release Date: 2024-04-11

[ESMA42-2004696504-7771]

Market Trends
ESMA (Report)

2023 Report on Quality and Use of Data

The ESMA has published its fourth edition report on the Quality and Use of Data which aims to provide transparency on how data collected under various regulations is utilized by authorities in the EU and highlights actions taken to ensure data quality. It covers datasets from regulations such as EMIR, SFTR, MIFIR, and others. The report outlines actions taken to improve data quality, with examples of measurable improvements but also persistent issues. Additionally, the report includes a methodology for calculating data quality indicators and a code for web scraping transparency data from APA websites.

Release date: 2024-04-11

[ESMA12-1209242288-852]

SFTR
ESMA (Report)

Report on SFT Markets 2024

The ESMA has published its inaugural market report on EU securities financing transactions markets. This report offers a comprehensive overview of the EU repo market, providing insights into market size, participants, cross-border linkages, clearing and settlement practices, collateral use, and haircut trends. Key findings include the dominance of banks in the repo market, strong cross-border connections, and the prevalence of uncleared transactions. The report highlights the importance of transparency in securities financing markets, facilitated by regulations such as the SFTR.

Release date: 2024-04-09

[ESMA50-524821-3147]

Supervision
Parliament (Report)

Proposed Investor Protection Rules

The European Parliament's ECON Committee has published a report in relation to a previously agreed text to amend several directives, with an overarching aim of reinforcing investor protection rules.
The report relates to a proposed directive which would amend the following Directives:
- the UCITS Directive;
- the Solvency II Directive;
- the MIFID; and
- the IDD.

The report contains a draft European Parliament legislative resolution, which sets out ECON's proposed amendments to the draft text of the proposed legislation.

Release Date: 2024-04-03

[A9-0162/2024]

Climate Risk

NGFS (Guide)

Climate-Related Disclosure for Central Banks

The NGFS has published the second edition of its Guide on climate-related disclosure for central banks. It urges central banks to lead by example in disclosing climate-related risks and opportunities. The Guide aligns with the TCFD's four thematic areas: Governance, Strategy, Risk Management, and Metrics and Targets, and offers recommendations categorised as either foundational ("baseline") or complementary ("building block"). It includes guidance on disclosing internal operations and institutional functions like monetary policy and financial stability.

Release date: 2024-06-19

[Ngfs.net]

Securitisation Framework

Commission (RTS)

RTS for non-ABCP traditional Securitisation

The OJ of the EU has published a Delegated Regulation supplementing the Securitisation Regulation with RTS for simple, transparent, and standardised non-asset backed commercial paper (non-ABCP) traditional securitisation and STS on-balance-sheet securitisation. It specifically addresses the disclosure of information related to the principal adverse impacts of assets on sustainability factors. Originators of STS securitisations have the option to voluntarily disclose such information, relieving them from the requirement to disclose environmental performance details.

Release date: 2024-06-18
Application Date: 2024-07-08

(EU) 2024/1700

Supervision

EBA (Report)

Report on greenwashing in the financial sector

The EBA has published a report on greenwashing in the financial sector explaining the need for enhanced supervision and improved market practices. Greenwashing is defined as misleading sustainability-related claims, with an emphasis on the responsibility of financial entities to provide accurate and clear sustainability information. The report shows an increase in greenwashing cases, particularly in the EU, and discuss the associated reputational and operational risks.

Release date: 2024-06-03

EBA/REP/2024/09

Climate Risk

NGFS (Report)

Practices and recommendations for Sustainable Finance

The NGFS has published a cover report and two technical documents on Sustainable and Responsible Investment (SRI) in central banks' portfolio management. The cover report offers ten recommendations, based on a step-by-step approach, for incorporating SRI policies, governance, and risk measurement. The technical documents focus on decarbonisation strategies for corporate investments and climate risk management in sovereign debt. The reports aim to guide central banks in aligning their portfolios with sustainability goals while considering their specific mandates.

Release date: 2024-05-16

Ngfs.net

CRA Regulation

ESMA (Consultation)

ESG Amendments to the CRA Regulation

The ESMA has launched a consultation on proposed amendments to the Credit Rating Agencies Regulation. The objective of the proposals is to ensure a better incorporation of ESG factors in the credit rating methodologies and subsequent disclosure to the public, as well as to enhance transparency and credibility in the credit rating process.

Release date: 2024-04-02
Consultation End: 2024-06-21

ESMA84-2037069784-2122

Market Environment

Supervision

ESAs (Report)

Joint Annual Report for 2023

The Joint Committee of the ESAs has published its 2023 Annual Report, detailing the year's collaborative efforts. Chaired by the EBA, the Joint Committee coordinated discussions and information exchange among the ESAs, the European Commission, and the ESRB. Key areas of focus included joint risk assessment, sustainable finance, digitalization, consumer protection, securitisation, financial conglomerates, and central clearing. The report highlighted achievements including policy products for DORA and ongoing work related to the SFDR.

Release date: 2024-06-07

JC 2024 16

Market Trends

ESAs (Report)

Spring Risk Update

The ESAs has published their Spring 2024 update on risks in the EU financial system. They noted continued high risks due to slowing growth, uncertain interest rates, and geopolitical tensions. They also noted that Credit risk is increasing, particularly in high-yield debt and real estate. While banks and insurers still hold solid capitalisation, challenges remain, and include subdued growth and cybersecurity threats. Overall, the outlook for the financial system is cautious due to these ongoing risks and vulnerabilities.

Release date: 2024-04-30

JC 2024 22

Reporting & Disclosure

Climate Risk

ESAs (Opinion)

Opinion on the SFDR

The ESAs have published a joint Opinion on improving the SFDR. They encourage creating a coherent sustainable finance framework that balances the green transition with consumer protection. Key proposals include introducing simple and clear categories for financial products, such as voluntary "sustainable" and "transition" categories, to enhance consumer understanding and minimize greenwashing risks. The ESAs suggest improving the definition of sustainable investments and conducting consumer testing before policy changes.

Release date: 2024-06-18

JC 2024 06

EMIR

EMIR (Press Release)

Parliament adopts EMIR3

The European Parliament has adopted EMIR3 with the aim of mitigating excessive exposures to third-country CCPs and enhancing the efficiency of EU clearing markets. Additionally, they adopted a directive focusing on the treatment of concentration risk towards CCPs and counterparty risk in centrally cleared derivatives.

Release date: 2024-04-25

europaparl.europa.eu

Risk Management

Supervision

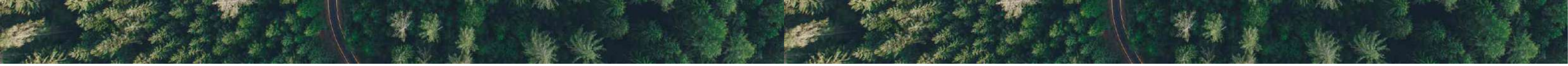
FSB (Consultation Report)

Liquidity Preparedness for Margin and Collateral Calls

The FSB has published a consultation report in which it proposes measures to improve the liquidity readiness of non-bank market players during market-wide stress. The FSB identified weaknesses in risk management and suggested eight policy recommendations covering areas like liquidity risk management and governance. The aim is to better manage spikes in margin and collateral calls.

Release date: 2024-04-17
Consultation End: 2024-06-18

P170424



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