THE FINANCIAL SERVICES INSIDER

Risk & Regulatory insights

Regulatory updates

July 2022

Highlights

With the situation at Ukraine escalating and amidst a general inability of EU members to agree on various issues regarding the imposition of more severe and effective sanctions at Russia and the overall treatment of rising inflation and energy dependency issues in Europe, great emphasis was placed at policy issues and actions to help manage the situation. The handling of Interest rates increases for a first time after a long period of low and even negative rates while winding down its quantitative easing programs presents a number of challenges for ECB as peripheral risk is back in focus given the fragmentation in the transmission of ECB policy across the eurozone.

Regarding Greece, and given the evolutions at the broader environment, relevant implications and effects in country's economic growth have been depicted at BoG's recent financial stability report issued last May while appropriate revisions and updates regarding key assumptions take place as the situation unfolds. Given the peculiarities of the Greek economy, the effective utilization of the RRF is expected to significantly contribute to the overcoming of the situation and Banks and their clients are increasingly focusing on relevant loan and guarantees opportunities. Furthermore, last May approval by EC of a Greek scheme of €2 billion to support investment towards a sustainable recovery is expected to further support around 250 companies.

Against this landscape, with regards to Q2 2022 other major evolutions at the regulatory – supervisory front, the most notable activities relate to the below:

- At the climate change risk front, and following the implementation of a similar exercise at Banks earlier on this year, EIOPA initiated stress tests while EBA launched the discussion on the role of environmental risks in the prudential framework and FSB launched a consultation on supervisory and regulatory approaches to climate-related risks and Basel Committee issued principles for the effective management and supervision of climate-related financial risks.
- While the discussions around temporary use of transition fuels get intensified, EC established the EU Energy Platform Task Force to secure alternative supplies (REPowerEU) and granted €1.1 billion to support clean energy projects from the EU Emissions Trading System (ETS) fund. Furthermore, to support Europe's sustainable transition with second green bond syndication it raised a further €6 billion in NextGenerationEU funds with its second NextGenerationEU green bond syndication. Late in June EC raised another €5 billion in green bonds in successful 10th transaction.
- Issuance of Annual Reports by a number of authorities and institutions with appropriately updated annual plans due to the current geopolitical crisis implications.

Highlights

Anti-Money Laundering (AML)

EBA calls on financial institutions and supervisors to provide access for Ukrainian refugees to the EU's financial system. Also, FATF published a report on the effectiveness and compliance of countries with its recommendations. Moreover, Law 4920/2022 was published on the transposition of Directive (EU) 2019/1153 and article No. 20 of Law 4557/2018 was amended, regarding Real Beneficiaries Register.

Capital Markets

ESMA published i) its final report on the review of the SSR and ii) RTS to suspend the CSDR buy-in regime. EC adopted additional equivalence decisions for US exchanges. Also, ECB i) issued the euro area bank lending survey for the first quarter of 2022, ii) published the results of the March 2022 survey on credit terms and conditions in euro-denominated SESFOD and iii) published TARGET Annual Report 2021.

Furthermore, EBA i) issued an opinion on the EC's proposed amendments to the EBA final draft technical standards for own funds and eligible liabilities, ii) published amended final draft technical standards on the mapping of ECAIs for securitisation positions and iii) updated its guidelines for assessing equivalence of professional secrecy regimes of third country authorities.

Environmental, Social and Governance (ESG)

Regarding ESG/Climate change aspects, Eurostat published 2022 report on Sustainable Development Goals in the EU while ESAs published a statement providing clarification on the draft RTS issued under the SFDR. Moreover, EC and EIB signed an agreement to enable further investments worldwide and a Joint Statement between the EC and the US was published on European Energy Security.

Furthermore, EC:

- awards over €1 billion to innovative projects for the EU climate transition;
- supports Europe's sustainable transition with second green bond syndication;
- approved €2 billion Greek scheme to support investment towards a sustainable recovery;
- established the EU Energy Platform Task Force to secure alternative supplies.

In addition, EIOPA launched climate stress test for the European occupational pension sector and FSB launched a consultation on supervisory and regulatory approaches to climate-related risks. Moreover, EBA launched discussion on the role of environmental risks in the prudential framework while ECB released a publication regarding climate-related risks to financial stability.

Highlights

FinTech

EBA published final report on the amendment of its technical standards on the exemption to SCA for account access. Furthermore, ECB published i) a working paper on Central Bank digital currency and bank intermediation and ii) a special topic regarding the Decryption of financial stability risks in crypto-asset markets.

Insurance

Further to the finalization of the revision of its guidelines on Contract Boundaries and guidelines on the Valuation of Technical Provisions, EIOPA published:

- its fourth report on insurance and pension products' costs and past performance;
- the UFR for 2023;
- an opinion on the disclosure of individual findings in insurance stress testing;
- a consultation on draft guidelines on integrating the customer's sustainability preferences in the suitability assessment under the IDD;
- its Risk Dashboard for the fourth quarter of 2021;
- a statement on blockchain and smart contracts in insurance;
- a report assessing insurers' exposure to physical climate change risks.

Furthermore, Insurance Europe:

- published its response to the EC's consultation on the Data Act proposal;
- responded to the EC's consultation on its proposed CSDD Directive;
- responded to the EC's consultation on its proposed Cyber Resilience Act;
- published its 2021-2022 Annual Report.

Moreover, ESAs published their first combined risk assessment report for 2022.

MIFID II

ESMA i) published complementary annual transparency calculations, ii) made recommendations to improve investor protection and iii) published the annual transparency calculations for non-equity instruments and the quarterly systematic internaliser calculations.

Highlights

Risk Management

Q2 2022 Risk Management related highlights include the below:

Given the crisis at Ukraine, a number of focused analysis on relevant implications have been made such as EBA's Risk Dashboard indicating limited direct impact on EU banks from the Russian invasion of Ukraine but also pointing to clear medium-term risks while On May 25, 2022 the European Central Bank (ECB) published the May 2022 Financial Stability Review. The financial stability conditions in the euro area have worsened as the Russian invasion of Ukraine leads to higher energy and commodity prices and increases risks to euro area inflation and growth.

Further to the publication of its Risk Dashboard for the Q4 of 2021, EBA:

- published final draft technical standards on the risk retention requirements for securitisations;
- updated technical standards in view of its 2023 benchmarking of internal approaches;
- published peer review on management of non-performing exposures;
- published final technical standards on crowdfunding service providers;
- published final technical standards to identify shadow banking entities;
- launched a public consultation on its draft guidelines addressed to resolution authorities for the publication of their approach to implementing the bail-in tool;
- launched a public consultation on RTS on the identification of a group of connected clients.

Moreover, ESMA published a report on highly liquid instruments while EIOPA issued supervisory statement on supervision of run-off undertakings. Furthermore, ECB published the SREP IT Risk Questionnaire 2022.

Other

ECB published a working paper on the economic impact of Next Generation EU and its annual report for the year 2021 Also, EC i) raised a further €9 billion in support of Europe's recovery and resilience and ii) announced that will phase out the State aid COVID Temporary Framework. Furthermore, EBA adopted decision on supervisory reporting for intermediate EU parent undertaking threshold monitoring and ESMA makes recommendations for disclosures of expected impacts of IFRS 17 application. Moreover, ESAs published joint Annual Report for 2021 while BoG published the Financial Stability Report and IFRS Foundation published 2021 annual report.

Anti-Money Laundering (AML)

Law 4920/2022 was published on the transposition of Directive (EU) 2019/1153 and article No. 20 of Law 4557/2018 was amended, regarding Real Beneficiaries Register.

EBA calls on financial institutions and supervisors to provide access to the EU's financial system.

On April 2, 2022 the European Banking Authority (EBA) published a statement addressed to both financial institutions and supervisors to ensure they make every effort to provide access for Ukrainian refugees to at least basic financial products and services.

In the statement, the EBA sets out how the existing EBA`s anti-money laundering and counter-terrorist financing (AML/CFT) guidelines apply in the current context, and how financial institutions can adapt their AML/CFT measures to provide a pragmatic and proportionate response to the compliance challenges they face.

This statement welcomes the commitment by financial institutions to implement the EU's sanctions regime, while calling on them to ensure that compliance with the EU's restrictive measures regime does not lead to unwarranted de-risking.

Publication of Law 4920/2022 on the transposition of Directive (EU) 2019/1153.

On April 15, 2022 Greek Law 4920/2022 was published (Government Gazette A' 74). Part B' of the abovementioned Law, and specifically Articles 34 to 55 contain provisions regarding the transposition of Directive (EU) 2019/1153 "on establishing rules to facilitate the use of financial and other information for the prevention, detection, investigation or prosecution of certain criminal offences".

FATF report on the effectiveness and compliance of countries with its recommendations.

On April 19, 2022 the Financial Action Task Force (FATF) published a report providing an overview of the state of global efforts to tackle money laundering, terrorist, and proliferation financing.

The report finds that in terms of laws and regulations, 76% of countries have now satisfactorily implemented the FATF's 40 Recommendations. This is a significant improvement in technical compliance, which stood at just 36% in 2012. However, the report also highlights that many countries still face substantial challenges in taking effective action in line with the risks they face. This includes difficulties in investigating and prosecuting high-profile cross-border cases and preventing anonymous shell companies and trusts being used for illicit purposes.

The FATF also reports that it has made certain changes to its mutual evaluations. In the forthcoming fifth round of mutual evaluations, the changes include:

- A significantly shorter mutual evaluation cycle, so that countries are assessed more frequently.
- Greater emphasis on the major risks and context to ensure that countries focus on the areas where the risks are highest.
- A results-orientated follow-up assessment process, which will focus on specific actions to tackle money laundering, terrorist financing and the financing of weapons of mass destruction.

Amendment of article No. 20 of Law 4557/2018 regarding Real Beneficiaries Register.

On June 3, 2022 draft Law 4941 was submitted to a vote in Greek Parliament. Article No. 80 of the aforementioned Law, includes specific arrangements regarding Real Beneficiaries Register amending article No. 20 of Law 4557/2018.

EBA published guidelines on role and responsibilities of the AML/CFT compliance officer.

On June 14, 2022 the European Banking Authority (EBA) published a final report containing draft guidelines setting out expectations of the role, tasks and responsibilities of the anti-money laundering/countering the financing of terrorism (AML/CFT) compliance officer and the management body.

Anti-Money Laundering (AML)

When finalised, the guidelines will apply to credit or financial institutions as defined in Article 3(1) and 3(2) of the Fourth Anti-Money Laundering Directive. The guidelines apply to all existing management body structures, irrespective of the board structure used (a unitary and/or a dual board structure and/or another structure) across Member States.

Going forward, the guidelines will be translated into the official EU languages and published on the EBA website. The deadline for Member State competent authorities to report whether they comply with the guidelines will be six months after the publication of the translations. The guidelines will apply from 1 December 2022.

In particular the draft guidelines cover:

- The role and responsibilities of the management body in the AML/CFT framework and of the senior manager responsible for AML/CFT.
- The role and responsibilities of the AML/CFT compliance officer.
- The organization of the AML/CFT compliance function at group level.

Capital Markets

ESMA published its final report on the review of the SSR.

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On April 4, 2022 the European Securities and Markets Authority (ESMA) published its final report on the review of certain aspects of the Short Selling Regulation (SSR).

The final report:

- Contains empirical analysis of the impacts of the short selling bans imposed during the COVID-19 pandemic and proposes legislative amendments to provisions that govern emergency measures (for example, long and short term bans and the ESMA's emergency measures). The purpose of the amendments is to clarify the interpretation of certain provisions and ensure that the procedure for issuing bans is sufficiently flexible for Member State competent authorities to tackle emergency situations.
- Reviews the existing framework for the calculation of net short positions, the so-called 'locate rule' and the list of exempted shares. The ESMA proposes enhancements to the current rules against uncovered short sales by introducing record keeping requirements and proposing the harmonisation of sanctions.
- Reviews the framework for transparency and the publication of net short positions. In light of recent market turmoil events the ESMA proposes the introduction of a centralised system for publication and disclosure to the public of net short positions.

The report has been submitted to the European Commission. It will provide technical support in relation to a potential review report of the SSR.

Financial services: EC adopted additional equivalence decisions for US exchanges.

On April 4, 2022 the European Commission (EC) adopted a decision declaring that a number of United States exchanges supervised by the US Securities Exchange Commission (SEC) are equivalent to EU regulated markets. As a result, derivatives traded on these US exchanges will now be treated as exchange-traded derivatives under EU law.

In addition, the Commission has also amended its equivalence decision regarding US central counterparties (CCPs). It now covers certain products (e.g. mortgage-backed securities issued or guaranteed by certain government sponsored agencies traded on a 'To-Be-Announced basis' (TBAs).

EBA issued an opinion on the EC's proposed amendments to the EBA final draft technical standards for own funds and eligible liabilities.

On April 8, 2022 the European Banking Authority (EBA) published its Opinion on the amendments proposed by the European Commission to the EBA final draft Regulatory Technical Standards (RTS). In the Opinion the EBA states its disagreement with two substantive changes proposed by the European Commission (EC) and agrees with the other amendments, which are considered as non-substantive.

More specifically, EC's version of the RTS includes two substantive changes concerning the provisions covering the notions of direct and indirect funding and the prior permission process for certain types of liquidation entities. Regarding the notions of direct and indirect funding, the EBA states, from a supervisory perspective, that the RTS already contain all necessary principles or tools required for capturing all cases of direct or indirect funding without the need for any additional description.

The EBA considers that its final draft RTS designed a prior permission regime proportionate to the goals of the regulation and is of the opinion that no change is warranted.

ECB issued the euro area bank lending survey – First quarter of 2022.

On April 12, 2022 the European Central Bank (ECB) issued its bank lending survey in the euro area for the first quarter of 2022.

The results reported in the April 2022 bank lending survey (BLS) relate to changes observed during the first quarter of 2022 and expectations for the second quarter of 2022. A total of 151 banks were surveyed in this round, with a response rate of 100%. The survey also contains results for the four largest euro area countries in terms of GDP (i.e. Germany, France, Italy and Spain).

Moreover, the BLS includes a number of ad hoc questions, which address the impact of:

- the ECB's asset purchase programmes (APP and PEPP);
- the ECB's negative deposit facility rate;
- the ECB's two-tier system, and the impact of TLTRO III on banks and their lending policies; and
- Banks' access to retail and wholesale funding.

EBA published amended final draft technical standards on the mapping of ECAIs for securitisation positions.

On May 3, 2022 the European Banking Authority (EBA) published its final draft Implementing Technical Standards (ITS) amending the Implementing Regulation on the mapping of credit assessments of External Credit Assessment Institutions (ECAIs) for securitisation positions.

The amendments to the Capital Requirements Regulation (CRR by the new Securitisation Framework have made the update of the mapping tables of ECAIs credit assessments for securitisation positions a necessity. Subsequent to Chapter 5 amendments of the CRR, a hierarchy of approaches was set out to calculate capital requirements for positions in a securitisation, whereby institutions using the Securitisation External Ratings Based Approach (SEC-ERBA) shall calculate risk-weighted exposure amounts based on credit quality steps (CQSs) set out in the CRR. Specifically, the amended Regulation reflects 18 CQSs for long-term external credit assessments ensuring enhanced granularity and risk sensitivity with respect to the approaches previously considered in the Regulation.

Moreover, since the adoption of the Implementing Regulation, one additional ECAI has been established in the EU with processes and methodologies in place for the implementation of credit assessments for securitisation instruments.

In addition, ESMA has withdrawn the registration of an ECAI and two existing ECAIs have extended their credit assessments to cover securitizations. The abovementioned changes have been reflected in the mapping tables accordingly.

Finally, the EBA published individual draft mapping reports illustrating how the methodology was applied to produce the mappings.

EBA updated its guidelines for assessing equivalence of professional secrecy regimes of third country authorities.

On May 3, 2022 the European Banking Authority (EBA) published its updated Guidelines for assessing equivalence of professional secrecy and confidentiality regimes of third country authorities.

The EBA Regulation entrusts the EBA with the monitoring of third country regulatory and supervisory frameworks and establishes a closer link between equivalence and cooperation with authorities from equivalent third countries through cooperation arrangements. Similarly, provisions in the Capital Requirements Directive (CRD), the revised Payment Services Directive (PSD2), the Bank Recovery and Resolution Directive (BRRD) and the Anti-Money Laundering Directive (AMLD) all provide for the possibility for EU authorities to sign cooperation arrangements with authorities from third countries.

In view of that, the EBA has updated its Guidelines on equivalence of confidentiality regime of third countries, allowing for a wider scope of the assessment (i.e. inclusion of all relevant provisions in the PSD2, CRD, BRRD and AMLD, as applicable to the specific third country authorities) and a wider purpose (i.e. to facilitate participation in supervisory, resolution and AML colleges and support cooperation arrangements).

EC published targeted consultation on the review of PSD2.

On May 10, 2022 the European Commission (EC) published a targeted consultation on the review of PSD2. In line with the better regulation principles, the evaluation will assess the effectiveness, efficiency, coherence, relevance and EU-added value of the Directive. Views are sought from persons and entities representing payment service providers, payment service users, national authorities and EU authorities and international organisations.

Results of the March 2022 survey on credit terms and conditions in euro-denominated SESFOD.

On May 24, 2022 the European Central Bank (ECB) published the results of the March 2022 survey on credit terms and conditions in euro-denominated securities financing and over-the-counter derivatives markets (SESFOD). The results mainly cover the period preceding the Russian invasion of Ukraine. Therefore, they only reflect the impact of this geopolitical development to a limited degree.

Overall credit terms and conditions offered by banks to counterparties tightened slightly over the period from December 2021 to February 2022. While price terms became tighter across the board, non-price terms were more restrictive for non-financial corporations only. Looking ahead, respondents to the March survey expected a further tightening of price and non-price terms for all types of counterparty over the period from March to May 2022.

Turning to securities financing transactions, survey responses for financing conditions were mixed. This was reflected in net percentages of participants reporting a slightly higher maximum amount and maximum maturity of funding for most types of euro-denominated collateral, and in slightly increasing rates/spreads for funding against most collateral types. Haircuts applied to euro-denominated collateral had increased slightly or were unchanged for all types of collateral. Respondents reported stronger demand for funding against government bonds, but weaker demand for funding against most other collateral types.

As for non-centrally cleared over-the-counter (OTC) derivatives, respondents reported that initial margin requirements had increased slightly for many types of OTC derivative, and that liquidity and trading had deteriorated for many OTC derivative types over the December 2021 to February 2022 review period.

ESMA published RTS to suspend the CSDR buy-in regime.

On June 2, 2022 the European Securities and Markets Authority (ESMA) published a report regarding the amendment of the regulatory technical standards (RTS) on settlement discipline.

This report presents a draft regulatory technical standard (RTS) suspending the application of the mandatory buy-in rules provided in Commission Delegated Regulation (EU) 2018/1229 of 25 May 2018 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on settlement discipline ("RTS on settlement discipline").

Market participants have voiced their concerns about having serious difficulties to implement the mandatory buy-in regime on the scheduled date due to:

(i) the uncertainty as to whether the European Commission's legislative proposal on amending Regulation (EU) No 909/2014 of the European Parliament and of the Council ('CSDR') would include amendments to the mandatory buy-in rules and the extent of any potential amendments;

(ii) the absence of clarity regarding some open questions necessary for the implementation of the buy-in requirements.

As the legislative provision modifying CSDR has now been officially published, ESMA presents in this report a proposal for the amendment of the RTS on settlement discipline in order to formally suspend the application of the provisions on the buy-in regime for three years, to allow the European Commission and the co-legislators additional time to determine the best way forward to improve settlement efficiency, while avoiding potential duplicative implementation costs for market participants in case extensive changes would be made to the existing buy-in measures.

Opinion of the ECB regarding enhancing market data transparency, removing obstacles to the emergence of a consolidated tape, optimising trading obligations and prohibiting receiving payments for forwarding client orders (CON/2022/19).

On June 1, 2022 the European Central Bank published its Opinion on a proposal for a regulation of the European Parliament and of the Council amending Regulation (EU) 600/2014 (hereinafter the "proposed regulation").

Capital Markets

The ECB welcomes the main objective of the proposed regulation to amend Regulation (EU) 600/2014 of the European Parliament and of the Council in order to enhance market data transparency across European Union (EU) trading venues by creating a new regulatory framework for the production of a 'consolidated tape' for trade data, including a new process for selecting a single consolidated tape provider for each asset class.

Moreover, the proposed regulation includes significant changes to the EU pre- and post-trade transparency rules for equity and non-equity financial instruments, such as greater harmonization of rules for deferring publication of transaction details, updates to the obligations regarding EU share and derivative trading, a ban on payments for order flow and other changes to the EU regime for securities and derivatives trading.

Finally, the aim of the proposed amendments is to further support the integration of European capital markets and to further harmonize relevant financial market supervisory rules across the Union.

ECB published TARGET Annual Report 2021.

On June 10, 2022 the European Central Bank published the Target Annual Report for 2021.

This report is the 22nd edition of the TARGET Annual Report and as in previous years, it provides information on TARGET2 traffic, its performance and the main developments that took place in 2021. It is aimed mainly at academics, practitioners and decision-makers in need of an in-depth understanding of TARGET2.

In addition to the core content, the report includes seven boxes on topics of particular relevance in 2021. The boxes focus, respectively, on the evolution of traffic in TARGET2; the update on TIPS pan-European reachability measures; the international perspective on cross-border payments in TARGET2; indirect participation in TARGET2; the external review carried out by Deloitte on incidents that affected TARGET services in 2020; an update on the TARGET2/T2S consolidation project and future RTGS services; and operational communication to TARGET2 participants.

EBA issued revised list of ITS validation rules.

On June 13, 2022 the European Banking Authority (EBA) issued a revised list of validation rules for its reporting standards (ITS, RTS, Guidelines), highlighting those which have been deactivated either for incorrectness or for triggering IT problems. Competent Authorities throughout the EU are informed that data submitted in accordance with these reporting standards should not be formally validated against the set of deactivated rules.

EBA replies to EC's call for advice on the MCD review.

On June 24, 2022 the European Banking Authority (EBA) published an Opinion and Report in response to the European Commission's Call for Advice (CfA) on the review of the Mortgage Credit Directive (MCD). The EBA proposes to review the MCD, in particular, to facilitate the smooth functioning of the internal market for mortgages, foster a level-playing field across all types of lenders and ensure a higher level of consumer protection across EU Member States.

The EBA has observed that, overall, since the application of the MCD in 2016, consumer protection has become more effective throughout the EU Single Market and the practices related to the mortgages have been mostly harmonised across Member States.

However, the EBA identified some specific issues to be addressed and in its Opinion and Report proposes to clarify the scope of the MCD, the impact of digitalisation and the ways to facilitate the cross-border provision of mortgages. It also addresses how the MCD can contribute to financial stability and the interplay with sustainability.

EBA adopted decision on reporting of supervisory data from investment firms' competent authorities to the EBA.

On June 28, 2022 the European Banking Authority (EBA) adopted a Decision on the way competent authorities supervising investment firms under the Investment Firms Regulation (IFR) will transmit supervisory data to EBA. The Decision sets out the scope, timing, and modalities of the data submission via the European Centralized Infrastructure of Data (EUCLID), with the first data submission expected by December 31, 2022.

The supervisory data from all investment firms will complement EBA data collections from credit institutions, banking groups, payment institutions, and e-money institutions. Information on the supervisory and financial reporting of investment firms is necessary for EBA to enable it to properly discharge its regulatory, convergence, and advisory tasks in the area of the prudential supervision of investment firms.

Environmental, Social and Governance (ESG)

EC approved €2 billion Greek scheme to support investment towards a sustainable recovery.

EC awards over €1 billion to innovative projects for the EU climate transition.

On April 1, 2022 the European Commission (EC) granted €1.1 billion to support clean energy projects from the EU Emissions Trading System (ETS) fund.

The EC signed agreements to grant 7 projects that support the EU's climate transition. The funding is from the Innovation Fund, sourced from the EU ETS. This Fund comes from 450 million allowances from the current EU ETS in 2021/30.

Under the EC's Fit for 55 proposals, 50 million allowances more will be added to the fund from the revised ETS. There will also be 150 million allowances more from transport and buildings emissions. The projects aim to reduce emissions by over 76Mt of CO2eq during the first 10 years of their operation.

These projects are using innovative low-carbon technologies at an industrial scale. They span various major sectors like hydrogen, biofuels, solar energy, cement, steel, and chemicals. The carbon capture and storage are also covered.

NextGenerationEU: EC supports Europe's sustainable transition with second green bond syndication.

On April 5, 2022 the European Commission raised a further €6 billion in NextGenerationEU funds with its second NextGenerationEU green bond syndication. Due on 04 February 2043, this 20-year bond brings the total long-term financing raised under NextGenerationEU to €99.5 billion, of which €20.5 billion in NextGenerationEU green bonds.

This bond issue was more than 13 times covered by investor orders and represents the largest green bond issued in 2022 to date. The size and quality of the order book confirm investor confidence in the EU's green bond programme.

Proceeds raised from the deal will boost Europe's green transformation by financing sustainable investments in the Member States' Recovery and Resilience Plans. The syndication follows on from the Commission's record-breaking €12 billion, 15-year green bond transaction in October 2021, and its €2.5 billion tap in February 2022.

EIOPA launched climate stress test for the European occupational pension sector.

On April 4, 2022 the European Insurance and Occupational Pensions Authority (EIOPA) launched its first climate stress test to gain insights into the effects of environmental risks on the European occupational pension sector. Sustainability and the management of environmental risks have become key considerations for long-term investors and in particular for European institutions for occupational retirement provision (IORPs).

The 2022 IORP stress test is testing the resilience of European IORPs against a climate change scenario, which was developed together with the European Systemic Risk Board and the European Central Bank. It reflects a sudden, disorderly transition to climate neutrality due to delayed policy action, which results in a sharp rise in carbon prices. This abrupt carbon price increase triggers transition risk effects to the entire economy.

The results of the stress test are expected to be published in December 2022.

Supervisory practices for assessing the sustainability of banks' business models.

On April 7, 2022 the Bank for International Settlements (BIS) published a paper from the Financial Stability Institute which presents a range of supervisory practices regarding business model analysis (BMA). In particular, it aims to identify practices that might be relevant to authorities seeking to explicitly introduce BMA in their supervisory review process (SRP). In order to do so, the paper emphasizes practical aspects of BMA, including processes and procedures for developing and conducting a BMA as well as for integrating its outcomes into the overall SRP.

Environmental, Social and Governance (ESG)

Joint Statement between the United States and the European Commission on European Energy Security.

On April 28, 2022 the EU-US Task Force on Energy Security met in person in Washington to discuss implementation of the 25 March Joint Statement by Presidents Biden and von der Leyen.

The meeting reviewed progress on diversifying natural gas supplies to Europe and reducing Europe's demand for natural gas. The discussion followed two recent Task Force convenings that included senior US and European Commission officials, representatives of EU Member States, and industry participants.

The sides also discussed the EU Energy Purchase Platform and plans to establish a framework to accelerate diversification of gas supply, including additional LNG supplies. The sides also discussed options to reduce Europe's demand for natural gas, including with the deployment of heat pumps, technologies that promote energy efficiency and savings such as smart thermostats, and renewable energy.

FSB launched consultation on supervisory and regulatory approaches to climate-related risks.

On April 29, 2022 the Financial Stability Board (FSB) issued a report setting out certain recommendations that are intended to assist supervisory authorities in developing their approaches to monitor, manage and mitigate cross-sectoral and system-wide risks arising from climate change and promote consistent approaches across sectors and jurisdictions.

The recommendations in the final report focus on the following areas:

- Supervisory and regulatory reporting and collection of climate-related data from financial institutions.
- System-wide supervisory and regulatory approaches to assessing climate-related risks.
- Early consideration of other potential macro-prudential policies and tools to address systemic risks.

The FSB is inviting comments on its recommendations by 30 June 2022.

EBA launched discussion on the role of environmental risks in the prudential framework.

On May 3, 2022 the European Banking Authority (EBA) issued a Discussion Paper on the role of environmental risks in the prudential framework for credit institutions and investment firms. The Discussion Paper initiates the discussion on the appropriateness of the current EU prudential framework to address environmental risk drivers and considers the potential justification for a dedicated prudential treatment of exposures substantially associated with environmental and/or social objectives and those subject to environmental and/or social impacts.

The Discussion Paper provides an overview of the existing elements of the prudential framework and how they interact with environmental risks. The analysis takes a risk-based approach to ensure that prudential requirements reflect underlying risks and ultimately support institutions' resilience to such risks. Its starting point is that prudential requirements should reflect the risk profiles of exposures and should not be used for other policy purposes. The Discussion Paper therefore seeks evidence on whether environmental characteristics of exposures correlate with the level of risk, and with the credit quality of exposures. It is also noted that while there is potential for the existing framework to capture environmental risks, the way in which such risks translate into financial risks over time remains an area of significant uncertainty.

Fundamental questions remain as to whether risks to the overall system are likely to grow due to increased environmental risks or if it is more likely that environmental risks imply the need for a reassessment of the risk profiles of firms and sectors in a way that is predominantly neutral to the overall capital requirements.

Environmental, Social and Governance (ESG)

ESAs consult on sustainability disclosures for simple, transparent and standardized securitizations.

On May 3, 2022 the European Supervisory Authorities (ESAs) issued a consultation paper seeking input on draft regulatory technical standards (RTS) on the content, methodologies and presentation of information in respect of the sustainability indicators for simple, transparent and standardised (STS) securitizations.

The draft RTS do not provide a framework for “sustainable securitization”. Rather they provide the content, methodologies, and presentation of information about the principal adverse impacts on sustainability factors of the assets financed by the underlying exposures of securitizations. Their purpose is to standardise the type and presentation of the information an originator may choose to disclose about the adverse impacts of the assets financed by the underlying exposures on the climate and other sustainability factors. This will assist investors in measuring and comparing the negative impacts on sustainability factors caused by the assets financed by the underlying exposures and help financial market participants by providing a framework for measuring negative impacts. The deadline for comments on the consultation is 2 July 2022.

EC and EIB signed an agreement to enable further investments worldwide.

On May 10, 2022 the European Commission (EC) and the European Investment Bank (EIB) signed an ambitious Guarantee Agreement through which the European Commission will support up to €26.7 billion of EIB financial operations to enable crucial public investments in sectors like clean energy, digital and transport infrastructure, health and education over the next seven years, rolling out Global Gateway worldwide.

This Guarantee Agreement will be the largest guarantee agreement signed in the framework of the new European Fund for Sustainable Development Plus ("EFSD+"), established by the NDICI – Global Europe regulation. It will support the green and digital transitions in EU partner countries and the implementation of the Global Gateway strategy, including the Global Gateway Africa-Europe Investment Package.

State aid: EC approved €2 billion Greek scheme to support investment towards a sustainable recovery.

On May 16, 2022 the European Commission (EC) announced that it has approved Greek regime height 2 billion euros aimed at providing support to investments for sustainable recovery.

Greece has notified the EC, under the provisional framework, of a €2 billion scheme aimed at providing support of investment for sustainable recovery. Under this measure, the aid will take the form of loans with subsidized interest rates.

The public support will be used to finance investments in tangible and intangible assets, in order to facilitate the development of economic activities that fall under the strategic pillars of the Greek recovery and resilience plan, especially the green transition, digitization and innovation (R&D). Greece will ensure that the financed investments are environmentally sustainable, according to the EU classification.

Public support will be accompanied by conditions to limit unwarranted distortions of competition, including safeguards to reduce the risk of possible indirect aid to the benefit of the financial intermediaries providing the support.

The amount of individual aid will not in principle exceed €15 million per beneficiary. The scheme is expected to benefit around 250 companies.

Eurostat published 2022 report on Sustainable Development Goals in the EU.

On May 23, 2022 Eurostat published the “Sustainable development in the European Union — 2022 monitoring report on progress towards the SDGs in an EU context”, which provides a statistical overview of progress towards the Sustainable Development Goals (SDGs) in the EU.

The data included in the report show that the EU has made progress towards most goals over the last five years, in line with Commission's priorities in key policy areas such as the European Green Deal, the Digital Strategy and the European Pillar of Social Rights Action Plan. While progress towards reaching some goals was faster than for others, movement away from the sustainable development objectives occurred only in few specific areas.

Environmental, Social and Governance (ESG)

The unprecedented instrument of NextGenerationEU adopted by the Commission in response to the pandemic, and the reforms and investments envisaged by Member States in their Recovery and Resilience Plans, will make a major contribution to achieving the SDGs in the EU in the future.

Joint Statement between the EC and the US on European Energy Security.

On May 24, 2022 a joint statement was published between the European Commission (EC) and the United States (US) on European Energy Security. The EC and the US condemn Russia's use of energy blackmail and reaffirm their commitment to strengthening Europe's energy security. Also, EC and US understand the urgency of taking decisive action to reduce energy imports from Russia and through the Task Force they will continue working to diversify Europe's supply of natural gas.

Climate-related risks to financial stability.

On May 25, 2022 the European Central Bank (ECB) released a publication regarding Climate-related risks to financial stability, which was published as part of the Financial Stability Review, May 2022.

The ECB is continuing its work on incorporating climate-related risks into assessments of financial stability. This includes a new analysis of disclosure, pricing, and greenwashing risks in financial markets, as well as continued monitoring of financial institutions' exposure to transition and physical risks.

There is some encouraging evidence of better disclosure by non-financial corporations and increasing awareness of climate-related risks in financial markets. Progress made by banks, however, has been more limited.

Established and newer metrics show no clear evidence of a reduction in climate-related risks, revealing instead a potential for amplification mechanisms stemming from exposure concentration, cross-hazard correlation and financial institutions' overlapping portfolios.

These findings can inform evidence-based international and European policy debates around climate-related corporate disclosure, standards for sustainable financial instruments and climate-related prudential policies. More generally, amid high uncertainty around governments' transition policies in an environment of volatile energy prices, further investments in the transition to a net-zero economy would also have a positive impact on medium-term growth and energy security.

REPowerEU: EC established the EU Energy Platform Task Force to secure alternative supplies.

On May 25, 2022 the European Commission (EC) set up a new Task Force within its Directorate-General for Energy, to provide support to the EU Energy Platform and implement the REPowerEU goal of supply diversification.

The EU Energy Platform was established earlier by the EC and EU's Member States to coordinate measures to secure energy supplies for the EU, including through the voluntary common purchase of pipeline gas, LNG and hydrogen.

The new Task Force will help deliver on the REPowerEU objective of reducing the EU's dependence on Russian fossil fuels, by enabling Member States and neighboring countries to have access to alternative energy supplies at affordable prices in the coming years.

The Energy Platform Task Force will start work on 1 June, and immediately tackle the new tasks outlined in the REPowerEU Plan adopted on 18 May. It will work towards demand aggregation, coordination of capacity and negotiation of energy supplies, while also providing support for the Regional Task Forces of Member States and neighboring countries.

ESMA provides supervisors with guidance on the integration of sustainability risks and disclosures in the area of asset management.

On May 31, 2022 the European Securities and Markets Authority (ESMA) published a supervisory briefing that is intended to enhance convergence among Member State competent authorities (NCAs) by addressing potential issues arising from the supervision of sustainability-related disclosures as well as the integration of sustainability risks by fund managers and the design of common supervisory practices.

This common approach is designed to increase transparency for investors as well as avoiding the practice of greenwashing.

Environmental, Social and Governance (ESG)

The supervisory briefing covers:

- Guidance for the supervision of fund documentation and marketing material, as well as guiding principles on the use of sustainability-related terms in funds names;
- Guidance for convergent supervision of the integration of sustainability risks by alternative investment fund managers and UCITS managers.

The content of this supervisory briefing is not subject to any “comply or explain” mechanism for NCAs and is non-binding.

ESAs provide clarifications on key areas of the RTS under SFDR.

On June 2, 2022 the European Supervisory Authorities (ESAs) published a statement providing clarification on the draft regulatory technical standards (RTS) issued under the Sustainable Finance Disclosure Regulation (SFDR). The ESAs have issued the statement following receipt of numerous requests for clarification from stakeholders and Member State competent authorities relating to the practical implications of the rules. With the statement the ESAs provide clarification on key areas, including principal adverse impact disclosures, financial product disclosure and “do not significantly harm” disclosures.

ESMA reviews its 2021 contribution to the EU’s Green and Digital Capital Markets.

On June 15, 2022 the European Securities and Markets Authority (ESMA), the EU’s securities markets regulator, published its Annual Report.

The report includes a review of ESMA’s achievements in 2021 in fulfilling its mission of enhancing investor protection and promoting stable and orderly financial markets in the European Union (EU), and focusing on its role in the supervision of EU-wide entities as well as its contribution on sustainable and digital finance.

Basel Committee issues principles for the effective management and supervision of climate-related financial risks.

On June 15, 2022 the Basel Committee on Banking Supervision (BCBS or the Basel Committee) issued principles for the effective management and supervision of climate-related financial risks.

The 18 principles are intended to promote a principles-based approach to improving both banks’ risk management and supervisors’ practices related to climate-related financial risks. They cover corporate governance, internal controls, risk assessment, management, and reporting. The principles seek to accommodate a diverse range of banking systems and are intended to be applied on a proportionate basis depending on the size, complexity and risk profile of the bank or banking sector for which the authority is responsible. Specifically, regarding scenario analysis and stress testing, the principles are formulated with a view towards application to large internationally active banks and to supervisory and other relevant financial authorities in Basel Committee member jurisdictions. However, smaller banks and authorities in all jurisdictions can benefit from a structured consideration of the potential impact of climate-related financial risks.

The Basel Committee expects implementation of the principles as soon as possible and will monitor progress across member jurisdictions to promote a common understanding of supervisory expectations and support the development and harmonization of strong practices across jurisdictions.

Climate Change-Related Regulatory Risks and Bank Lending.

On June 21, 2022 the European Central Bank (ECB) released a paper regarding Climate Change and the Related Regulatory Risks in Bank Lending.

This paper contributes to the literature on the current role of the financial sector in mitigating transition risks as it identifies the effect of regulatory risks related to climate change on credit reallocation. The paper considers how banks respond to firms’ regulatory risks on the basis of a measure that captures a forward-looking view from within the firm. Furthermore, being able to differentiate between positively and negatively exposed firms allows to provide a fuller picture of whether banks’ credit real location hinders or supports the transition to a more sustainable economy.

A solid empirical understanding of the present serves as the basis for the exploration of possible future policies.

Environmental, Social and Governance (ESG)

The research evaluates whether and how banks alter their lending behavior on their own accord, highlighting aspects in which regulatory action is needed. It shows how important the stringency of the existing regulatory environment is in determining how banks engage in the transition.

NextGenerationEU: European Commission raises €5 billion in green bonds in successful 10th transaction.

On June 21, 2022 the European Commission issued a further €5 billion in NextGenerationEU green bonds in the 10th syndicated transaction under the NextGenerationEU recovery instrument. The long 25-year bond due on 4 February 2048 was over six times oversubscribed, a very positive outcome, especially bearing in mind the turbulent market in recent weeks.

With this transaction, the Commission has issued a total of €47.5 billion in the first half of 2022, bringing it one step closer to the €50 billion NextGenerationEU funding target for the first six months of the year.

The Commission has so far raised €118.5 billion in long-term EU bonds under the NextGenerationEU programme since its launch in June 2021, of which €28 billion in NextGenerationEU green bonds. The funds are being used to finance Europe's economic recovery and long-term resilience via the Recovery and Resilience Facility and other EU budget programmes.

NextGenerationEU: EC to issue €50 billion of bonds in the second half of 2022 to finance the recovery.

On June 24, 2022 the European Commission announced its plans to issue €50 billion of EU-Bonds to finance the NextGenerationEU recovery programme between July and December 2022, to be complemented by short-term funding (EU-Bills). The funds will go to support Member States' economic recovery following the coronavirus pandemic under the Recovery and Resilience Facility.

Alongside funding for NextGenerationEU, the Commission may also be called upon to issue up to €9 billion for loans to support Ukraine under a new exceptional Macro-Financial Assistance (MFA) programme and up to €6.6 billion for loans under the SURE programme, subject to Member States' requests and completion of relevant procedures.

ESMA publishes results of its call for evidence on ESG ratings.

On June 27, 2022 the European Securities and Markets Authority (ESMA) published a letter sent to the European Commission setting out its findings from its call for evidence to gather information on the market structure for ESG rating providers in the EU.

In the letter, ESMA provides a brief introduction to the broader context in which its call for evidence was launched and the key objectives that guided its development. The ESMA then sets out its key findings, both overall, and for the different categories of respondents.

Key findings include:

- The structure of the ESG rating provider market shows that there is a small number of very large non-EU providers, and many significantly smaller EU entities. While the legal entities of respondents are spread out across almost half of the EU Member States, many of these are clustered in a small number of Member States.
- Users of ESG ratings are typically contracting for these products on an investor-pays basis from several providers simultaneously. Their reasons for selecting several providers are to increase coverage, either by asset class or geographically, or to receive ESG assessments that are different in nature and
- Entities covered by ESG ratings dedicate at least some level of resourcing to their interactions with ESG rating providers, although the amount largely depends on the size of the rated entity itself.

Based on the feedback to its call for evidence the ESMA concludes that the market for ESG rating providers in the EU is an immature but growing market which has seen the emergence of a small number of large non-EU headquartered providers. In the ESMA's view the market bears some resemblance to the EU market for credit ratings. Similar to that market, there are a large number of smaller more specialized EU entities co-existing with larger non-EU entities who provide a more comprehensive suite of services.

FinTech

EBA published final report on the amendment of its technical standards on the exemption to SCA for account access.

EBA published final report on the amendment of its technical standards on the exemption to SCA for account access.

On April 5, 2022 the European Banking Authority (EBA) issued a final report on the amendment to the regulatory technical standards (RTS) on strong customer authentication (SCA) and secure communication under the revised Payment Services Directive (PSD2). The changes introduce a new mandatory exemption to SCA that will require account providers not to apply SCA when customers use an account information service provider (AISP) to access their payment account information, provided certain conditions are met. The amendment aims to reduce frictions for customers using such services and to mitigate the impact that the frequent application of SCA and the inconsistent application of the current exemption have on AISPs' services.

The draft amending RTS will be submitted to the European Commission for endorsement following which it will be subject to scrutiny by the European Parliament and the Council before being published in the Official Journal. The draft amending RTS will apply 7 months after entry into force.

Central bank digital currency and bank intermediation.

On May 12, 2022 the European Central Bank (ECB) published a working paper on Central Bank digital currency and bank intermediation.

The paper explores a set of analytical exercises that can offer insights into the consequences that a digital euro could have for bank intermediation in the euro area in view of the significant degree of uncertainty surrounding its design.

Moreover, several take-up scenarios are calculated in the paper, based on assumptions about the degree of substitution between different forms of money in normal times, to illustrate how the potential demand for a digital euro might shape up.

In addition, the paper analyses the mechanisms through which commercial banks and the central bank could react to the introduction of a digital euro

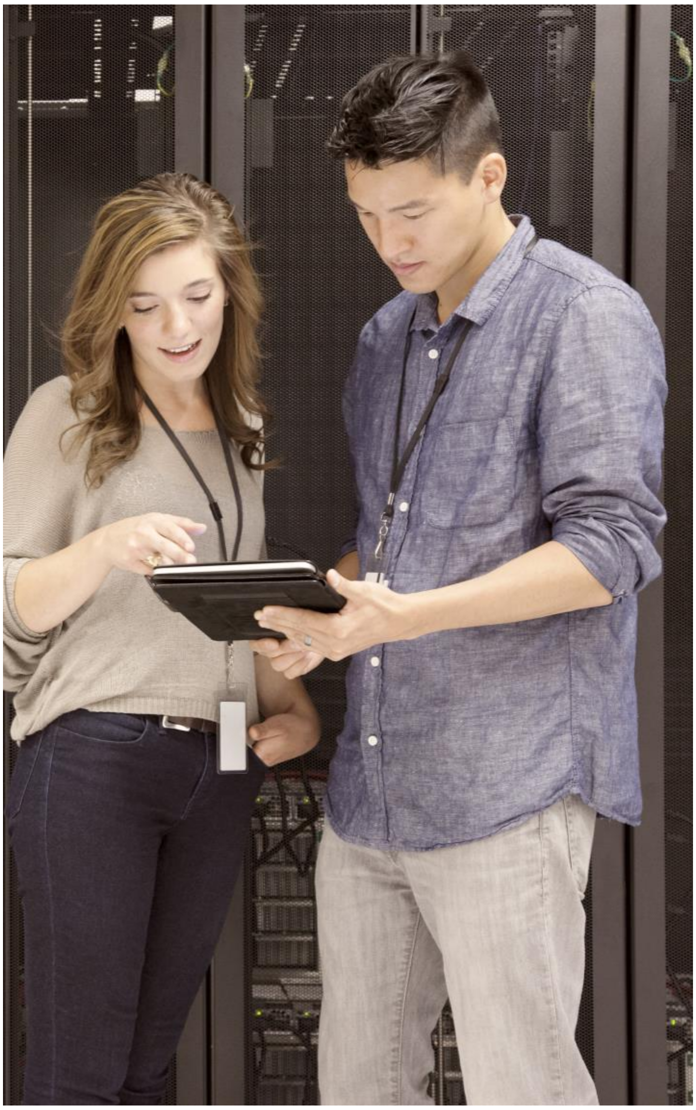
Overall, effects on bank intermediation are found to be potentially larger in stressed times and vary across credit institutions in normal times. Finally, a potential digital euro's capacity to alter system-wide bank run dynamics appears to be dependent on a few crucial factors, such as usage limits and CBDC remuneration.

Decrypting financial stability risks in crypto-asset markets.

On May 25, 2022 the European Central Bank (ECB) published, as part of its Financial Stability Review, a special topic regarding the Decryption of financial stability risks in crypto-asset markets. Crypto-assets are currently the subject of intense policy debate. Despite the risks involved, investor demand for crypto-assets has been increasing.

Specifically, the crypto-asset universe has increased dramatically in both size and complexity since the end of 2020, expanding beyond Bitcoin. However, crypto-asset markets continue to be characterized by high levels of volatility. Moreover, the increasing correlation of mainstream risky financial assets with crypto-asset prices during market stress episodes sheds doubt over their usefulness in the context of portfolio diversification. It should be noted that demand for crypto-assets from institutional investors in Europe has risen while retail investors represent a significant part of the crypto-asset investor base.

Regarding the risks stemming from crypto-assets, the relevant authorities have ascertained that crypto-assets pose risks from an investor protection and market integrity perspective. The significant volatility of crypto-assets in recent months has not resulted in contagion or any notable defaults by financial institutions, but the risks of these are increasing. Finally, it is noted that significant informational and data shortcomings concerning crypto-assets persist, hindering the proper assessment of financial stability risks.



Basel Committee published second consultation document on the prudential treatment of banks' cryptoasset exposures.

On June 30, 2022, the Basel Committee on Banking Supervision issued a second public consultation on the prudential treatment of banks' cryptoasset exposures.

The basic structure of the proposal in the first consultation is maintained, with crypto assets divided into two broad groups: Group 1 includes those eligible for treatment under the existing Basel Framework with some modifications. Group 2 includes unbacked crypto asset and stable coins with ineffective stabilisation mechanisms, which are subject to a new conservative prudential treatment.

The updated proposals provide more detail on the proposed standard and include new elements such as an infrastructure risk add-on to cover the new and evolving risks of distributed ledger technologies; adjustments to increase risk sensitivity; and an overall gross limit on Group 2 crypto assets.

Given the rapid evolution and volatile nature of the crypto asset market, the Committee will continue to closely monitor developments during the consultation period. The standards that the Committee aims to finalise around year-end may be tightened if shortcomings in the consultation proposals are identified or new elements of risks emerge and based on the Committee's overall assessment of the risks.

The Committee welcomes comments on the proposals, which should be submitted by 30 September 2022.

Insurance

EIOPA published a report assessing insurers' exposure to physical climate change risks and finalized the revision of its guidelines on Contract Boundaries and guidelines on the Valuation of Technical Provisions.

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

On April 5, 2022 the European Insurance and Occupational Pensions Authority (EIOPA) issued the technical information on the applicable risk-free interest rate term structures (RFR) with a reference to the end of March 2022.

Following EIOPA's news item published on last March 25th on the upcoming publication of the Russian Rouble risk-free rate term structure and based on the continuous monitoring and last observations where rates are evolving rather stable, EIOPA has decided to calculate and publish this specific RFR curve using current underlying interest rates as of 31st of March 2022.

EIOPA looks into costs and past performance of insurance and pension products.

On April 5, 2022 the European Insurance and Occupational Pensions Authority (EIOPA) published its fourth report on insurance and pension products' costs and past performance.

According to the research, insurance-based investment products (IBIPs) had consistently good returns in 2020. The average net return on unit-linked products was 6%, while hybrid and profit participation products yielded 2.0% and 1.4%, respectively. The shift in recent years from traditional profit participation programs to hybrid and unit-linked products increased in 2020. Market turbulence caused by the epidemic, as well as the expectation of lower interest rates for longer, accelerated this trend. Expectations of rising inflation are also a source of concern for consumers in this environment.

According to the research, greater risk classes resulted in better net returns for unit-linked and hybrid products, while longer holding periods continued to boost profit participation product performance. Lower-risk goods had extremely poor – and in some cases, negative – net returns.

For the first time, EIOPA conducted a study on a small number of goods with sustainability characteristics, which were shown to beat normal IBIPs significantly. It's worth mentioning, however, that the research took place before the SFDR Regulation harmonizing ESG goods went into effect.

The significant variability across European markets continues to impede comparison when it comes to personal pension plans (PPPs). The paper examines the diversity of Member States in order to address it. Nonetheless, PPPs' performance has been compared to that of IBIPs on a broad scale.

EIOPA published the Ultimate forward rate (UFR) for 2023.

On April 5, 2022 the European Insurance and Occupational Pensions Authority (EIOPA) published the calculation of the Ultimate Forward Rate (UFR) for 2023. As of 1 January 2023, the applicable UFR for the euro will remain unchanged at 3.45%.

Insurers outline key messages on CSRD in view of trialogue discussions between EC, Council of the EU, and European Parliament.

On April 12, 2022 Insurance Europe published an updated set of key messages on the European Commission's Corporate Sustainability Reporting Directive (CSRD) initiative, considering the ongoing trialogue discussions between the Commission, the Council of the EU, and the European Parliament on their respective proposals for the CSRD.

The insurance industry would like to emphasize three critical aspects that would help the CSRD function properly:

- The subsidiary reporting exemption should be preserved, and it should apply to public-interest entities in the same way as it does to others, allowing insurers to report only at the consolidated level. At the group level, sustainability strategies and policies are developed. It is also critical to allow reporting at the group level in order to properly analyze organizations' sustainability performance.

Insurance

- Insurance Europe strongly supports the Commission's and Council's plans to allow companies to employ the same audit firm but opposes the European Parliament's proposal to prevent companies from using their statutory auditor to ensure the sustainability report's accuracy. The Audit Directive's criteria of independence and conflict of interest should be applied to sustainability reporting as well.
- The scope of SMEs should be preserved, but the definition of a SME undertaking should be revised to allow insurance SMEs to report under simpler rules. Insurers applaud the Council's unambiguous acknowledgement in its suggestions that the definition of net turnover for credit institutions and insurance undertakings must be adjusted to account for their unique characteristics. The current Council plan, however, might be amended to address the issue for insurers by incorporating a recital that explicitly refers to the future sectoral definition of "low risk undertaking" in Solvency II.

EIOPA calls for changes to stress test disclosure regime.

On April 12, 2022 the European Insurance and Occupational Pensions Authority (EIOPA) published an opinion on the disclosure of individual findings in insurance stress testing.

EIOPA performs Union-wide stress tests to examine the resilience of the European insurance market, and until now has only shared aggregated data with the public. EIOPA has worked to improve the transparency of the exercise in recent years by publishing individual results and engaging with stakeholders on the subject.

Individual stress test results should be communicated consistently and systematically, according to EIOPA, to improve market discipline, increase participants' commitment, and contribute to a level playing field among insurers and across the financial sector, resulting in a healthier insurance industry.

Despite EIOPA's efforts to address the industry's concerns about individual disclosures, such as asking the publication of only a subset of balance sheet indicators, the majority of (re)insurers remain hesitant.

As a result, EIOPA believes that changing the legal framework to allow EIOPA to reveal the results of undertakings is the only method to obtain individual information disclosure.

A simple approach would be to complete the ongoing Solvency II review with a targeted revision to the Solvency II Directive (2009/138/EC).

ESAs see recovery stalling amid existing and new risks.

On April 13, 2022 the three European Supervisory Authorities (ESAs) published their first combined risk assessment report for 2022. The report highlights the financial sector's growing vulnerabilities, as well as the increase of environmental and cyber hazards.

In light of the risks and uncertainties, the ESAs advise national competent authorities, financial institutions and market participants to take the following policy actions:

1. Financial institutions should be prepared for further potential negative implications stemming from geopolitical tensions and ensure compliance with the sanctions regimes put in place both at the EU and at global levels;
2. Financial institutions and supervisors should prepare for a possible deterioration of asset quality in the financial sector;
3. The impact of further increases in yields and sudden reversals in risk premia on financial institutions and investors should be closely monitored;
4. Retail investors are of particular concern, and supervisors should monitor risks to retail investors seeing that their participation in financial markets has increased substantially in recent years;
5. Financial institutions should further incorporate ESG considerations into their business strategies and governance structures; and
6. Considering the elevated level and frequency of cyber incidents, financial institutions should strengthen their cyber resilience and prepare for a potential increase in cyberattacks.

Insurance

EIOPA consults on draft guidelines on integrating the customer's sustainability preferences in the suitability assessment under the IDD.

On April 13, 2022 the European Insurance and Occupational Pensions Authority (EIOPA) published a consultation on draft guidelines on integrating the customer's sustainability preferences in the suitability assessment under the IDD. This consultation is addressed to insurance undertakings and intermediaries providing advice in the context of distribution of insurance-based investment products.

By virtue of the requirements of Commission Delegated Regulation (EU) 2021/12573 which will come into force on the August 2022, the sustainability preferences of the individual customer are required to be taken into account in the suitability assessment carried out by insurance undertakings and insurance intermediaries when providing advice in relation to insurance-based investment products.

In the light of the above, the purpose of these draft guidelines is to provide further guidance to the above-mentioned insurance undertakings and intermediaries with respect to the following matters:

- Helping customers better understand the concept of "sustainability preferences" and their investment choices;
- The collection of information on sustainability preferences from customers;
- Matching customer preferences with products, based on the Sustainable Finance Disclosure Regulation (SFDR) product disclosures;
- When to assess sustainability preferences (i.e. only once the suitability of the product has been assessed according to the customer's knowledge and experience, financial situation and other investment objectives); and
- The sustainable finance-related competences expected of insurance intermediaries and insurance undertakings who provide advice on IBIPs.

EIOPA finalizes the revision of EIOPA's Guidelines on Contract Boundaries and Guidelines on the Valuation of Technical Provisions.

On April 21, 2022 the European Insurance and Occupational Pensions Authority (EIOPA) released two final reports on the updating of the EIOPA Guidelines on Contract Boundaries as well as the Guidelines on the Valuation of Technical Provisions.

Since 2019, EIOPA has found various diverging practices in the valuation of technical provisions, indicating the need to investigate and improve uniformity in their computation. In its Opinion to the European Commission on the 2020 review of Solvency II, EIOPA proposed various adjustments to the Solvency II framework as a first step (December 2020).

EIOPA has since revised its Guidelines on Contract Boundaries and Guidelines on the Valuation of Technical Provisions to provide additional guidance, issuing new guidelines and amending some existing guidelines on a limited number of topics considered critical from a supervisory convergence standpoint (e.g. Modeling Biometric Factors, Expense Apportionment, Expense Changes, Assumptions Used to Calculate Expected Profits in Future Premiums, and Contract Unbundling)

Unless National Competent Authorities (NCAs) decide otherwise, the new and updated rules will take effect on January 1, 2023. NCAs must make every effort to comply with the new/amended guidelines, as stated in Article 16 of the EIOPA Regulation.

Among the published materials are:

- The Final Report on the Revision of the EIOPA Contract Boundaries Guidelines;
- Final report on the amendment of the EIOPA Guidelines on Technical Provisions Valuation;
- The Resolution of Comments from the two sets of Guidelines' Public Consultation.

Risk Dashboard shows resilient insurance sector even as macro and cyber risks abound.

On May 2, 2022 the European Insurance and Occupational Pensions Authority (EIOPA) released its Risk Dashboard for the fourth quarter of 2021, based on Solvency II data. The findings reveal that the insurance industry's vulnerability to macro risks is currently the most pressing worry. Macro risks, as well as digitalization and cyber threats, have remained high, while other risk categories, including as insurance, profitability, and solvency risks, have remained moderate.

Insurance

In terms of macro concerns, global GDP growth is expected to slow, while inflation estimates for major geographic areas are expected to rise, reflecting Russia's ongoing invasion of Ukraine and accompanying increases in oil prices. Even if CDS spreads for financial unsecured and non-financial corporate bonds grew in the first quarter of 2022, credit risks have remained reasonably stable and mild. In the fourth quarter of 2021, the median bond and loan investment remained unchanged. Despite the major impact of Russia's invasion of Ukraine, market risks have not increased since the prior assessment. The bond and equities markets' volatility increased in the first quarter of 2022, reflecting concerns about the geopolitical scenario.

Moreover, profitability and solvency concerns are both moderately high. The solvency situation of groups increased, while the SCR ratio for solitary life and non-life ventures decreased significantly. Both the return on excess assets over liabilities and the return on assets have declined since 2020, yet they are still higher than they were.

Insurance groups' exposure to insurances has decreased, implying that interlinkages and imbalances risks remain moderate. Other financial institutions' median investments have increased.

The environmental, social, and governance (ESG) hazards are moderate. The median growth of insurers' green bond investments has grown marginally. The amount of outstanding green bonds has also been fluctuating year over year, increasing in the latest quarter. In comparison to the previous quarter, the catastrophe loss ratio declined marginally.

Concerning digitalization and cyber dangers they have risen dramatically. Given the rise of cyber security vulnerabilities and concerns about a hybrid geopolitical conflict, the materiality of these risks for insurance as judged by supervisors rose. In the first quarter of 2022, unfavorable cyber sentiment is expected to grow. According to publicly accessible data, the number of cyber incidents affecting all sectors of activity has climbed dramatically since the same quarter last year.

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

On May 4, 2022 the European Insurance and Occupational Pensions Authority (EIOPA) released technical details on the appropriate risk-free interest rate term structures (RFR), with a deadline of April 30, 2022. Technical information for RFR has been calculated using the content of the technical documentation under Background material and RFR coding as of October 8, 2019. All of the materials can be found in the RFR section of the EIOPA website. The latest version of the source code can be found in the RFR area under Related links.

Insurers publish views on a possible open finance framework.

On May 4, 2022 Insurance Europe released a position paper on a potential open finance framework.

An initiative on open finance is an important step and the insurance industry stands ready to actively participate in any discussions on this topic. Open insurance, if designed with the right framework, has the potential to positively impact both consumers and insurers. However, the boundaries of any potential framework are crucial and will play a key role in determining its overall impact. Further elaboration of the exact scope and objectives of any open finance framework is therefore necessary.

The paper discusses some of the most critical factors to consider while creating a good and effective framework. These include the necessity to ensure fair data sharing on a real equal playing field, as well as consent-based data sharing of consumers' data and the avoidance of a PSD2 framework copy-paste into the insurance sector.

EIOPA reacts to stakeholders’ views on blockchain in insurance.

On May 6, 2022 the European Insurance and Occupational Pensions Authority (EIOPA) published a statement on blockchain and smart contracts in insurance. The statement sets out a high-level summary of the responses received from stakeholders as well as the EIOPA reactions to the stakeholder feedback.

Insurance

Stakeholders generally agreed on possible next steps, including the need for a coherent European approach to blockchain and smart contracts in insurance and common understanding of how existing rules should be applied in order to develop a more integrated and efficient European insurance market.

Furthermore, stakeholders considered that the existing regulations like Insurance Distribution Directive (IDD), Solvency II Directive, or General Data Protection Regulation (GDPR), in combination with recently launched legislative initiatives such as Markets in Crypto Assets (MiCA), Digital Operational Resilience Act (DORA), Anti-Money Laundering Directive (AMLD 5), or the Artificial Intelligence (AI) Act, would address most of the risks posed by the use of blockchain technology and smart contracts in insurance. However, they highlighted the importance of ensuring that the new legislative initiatives are sufficiently “future proof” and do not create excessive burdens to business, especially small and medium enterprises.

EIOPA will consider highlighted barriers in its different work streams as appropriate and will also aim to share highlighted barriers and challenges with the European Commission and European Data Protection Supervisor. EIOPA will continue monitoring blockchain and smart contract use cases in insurance, barriers, and related risks and benefits, including in its InsurTech Task Force. EIOPA will also continue to assess blockchain use in regtech and suptech as necessary. Potential area for further focus is Decentralized Finance (DeFi) and its extensions in insurance (DeIn). It is noted that there are different types of crypto-assets use cases in the insurance industry, although their level of adoption is still at an early stage. However, EIOPA highlights the risk and speculative nature of crypto-assets as well as concerns about the environmental aspects of crypto-assets.

As next steps, EIOPA will reflect further upon the barriers and challenges highlighted in the consultation and continue assessing the use of blockchain in supervisory and regulatory processes as necessary.

Insurers highlight how Package Travel Directive is fit for purpose.

On May 15, 2022 Insurance Europe responded to a European Commission consultation on the Package Travel Directive (PTD).

The PTD as it stands now provides adequate consumer protection, and no revisions or expansion of its scope are required.

The current framework allows insurers to maintain an acceptable level of implementation flexibility, allowing them to respond to changing consumer preferences and market trends. Insurers believe the PTD insolvency guidelines and present insolvency protection procedures are also appropriate because they protect consumers in the event of a travel operator's bankruptcy. It is therefore, according to Insurance Europe, unnecessary to expand the PTD's scope to include vouchers and refunds or to create a new funding mechanism.

Data Act welcomed but more work needed to unlock value in EU data economy.

On May 17 2022, Insurance Europe published its response to the European Commission's consultation on the Data Act proposal. The proposal is welcomed by Insurance Europe since it establishes common guidelines for the use of data generated by connected devices, including how to access and exchange it. The industry also supports a strengthened data portability right, which aims to improve technological standards for individual data access and mobility, among other things.

However, robust sector-specific laws governing access to in-vehicle data is required to give independent service providers the confidence and incentive to invest in innovative data-driven services.

Trade secrets and other sensitive corporate information should, in theory, be exempt from data sharing responsibilities. The mere threat of having to reveal this information could stifle innovation, negatively impacting the development of the European data economy. At the very least, the Data Act should be more explicit about the nature of the precise safeguards required to protect trade secrets' secrecy.

Furthermore, the Data Act's goal should be to level the playing field for all players in the data economy. However, it is unclear why unilaterally imposed contract provisions that are deemed unjust are only void if the recipient is a small business.

The plan also establishes a requirement that data be made available to public agencies in the event of a public emergency or where public sector organizations have an exceptional necessity to use specific data. However, the reasons for government access should be more clearly stated in the language.

The Data Act's link to other legislative regulations, particularly the General Data Protection Regulation, must be explained.

Finally, the cloud computing industry applauds the Data Act's cloud switch ability rules, which will help to create a more competitive market for cloud computing services. Insurers have expressed concerns over cloud service provider concentration, which leads to a lack of competition in the market and an imbalance in negotiating power between the parties.

EIOPA assesses European insurers' exposure to physical climate change risks.

On May 20, 2022 the European Insurance and Occupational Pensions Authority (EIOPA) published a report assessing insurers' exposure to physical climate change risks. The study summarizes the preliminary findings from a large-scale industry data collection effort. It specializes in windstorm, wildfire, river flood, and coastal flood insurance for property, content, and business interruption. Under a present and forward-looking viewpoint, these risks have been recognized as the most relevant and possibly disruptive to the European property insurance industry.

The purpose of this report is to give an initial assessment of the European insurance sector's exposure to climate-related risks and to inform future research in this relatively new topic. The findings show that the European groupings and solo ventures in the sample have historically been well positioned to address claims arising from three significant European natural disasters examined in the paper. It is crucial to emphasize, however, that the insurance industry's capacity to continue to provide financial protection against the repercussions of such occurrences is contingent on its ability to assess the expected impact of climate change and modify its business strategy.

Finally, the findings of the analysis demonstrate that the insurance business still has work to do in terms of preparing for climate-related changes. EIOPA will continue to cooperate with national responsible authorities and industry to improve awareness of climate change and help the sector prepare for its implications.

EIOPA sustainability preferences approach should put consumers first and not be unnecessarily prescriptive.

On May 23, 2022 Insurance Europe responded to the European Insurance and Occupational Pensions Authority's (EIOPA) consultation on the incorporation of sustainability preferences in appropriateness assessments.

EIOPA recognizes many of the issues insurers confront in adapting to the new regime, which Insurance Europe welcomes. Insurers have considerable challenges in terms of data availability and inconsistencies in the underlying regulation.

EIOPA's approach, on the other hand, is far less flexible than that of the European Securities and Markets Authority (ESMA).

In practice, the present Level 1 and 2 suitability assessment criteria function well: they provide solid standards for the substance of the assessment while remaining generic enough to adapt to diverse customers, goods, and situations. Overly complex provisions, on the other hand, can cause more practical and legal issues than they address. This risk is especially great when it comes to new policies that haven't been well evaluated. It's critical that guidelines give distributors enough leeway to allow for practical and efficient implementation across multiple EU markets.

The goal should always be to assist the customer rather than to drive them toward certain products or goals.

To maintain the assessment of sustainability preferences as clear and accessible as feasible, EIOPA should examine the suggested rules with the goal of reducing unduly granular and prescriptive requirements. The goal should be to provide direction without imposing precise regulations that would benefit neither insurers nor customers.

Insurance

If possible, EIOPA should emulate the flexibility of some ESMA principles by using the word 'could' rather than ‘should' when appropriate. Divergence introduced primarily at Level 3 is not justifiable, given the parallels in the Level 2 Regulation.

Insurers welcome EC proposals for a CSDD Directive.

On May 24, 2022 Insurance Europe responded to the European Commission's consultation on its proposed Corporate Sustainability Due Diligence (CSDD) Directive.

Economic operations must prevent or mitigate negative consequences for human rights and the environment. Furthermore, the sector supports business decisions that examine a wide range of factors related to a company's impact on people and the environment, as well as long-term financial performance.

The European Commission's proposal for a CSDD Directive aims to speed up and deepen corporate sustainability initiatives and transition planning that many companies are already undertaking, and the insurance industry supports this goal.

In this regard, the insurance industry applauds the Directive's establishment of a unified framework for corporate due diligence standards. This will ensure a level playing field in terms of regulation, especially for non-EU enterprises that are subject to the Directive and will prevent divergences between member states.

The insurance industry, on the other hand, would like to draw legislators' attention to the following crucial elements:

- To avoid a fragmented framework for due diligence, which could lead to genuine challenges in the Directive's actual implementation, consistency and alignment with existing EU legislation is critical. The Directive should make it clear that specific sectoral duties shall take precedence.
- Only the combined level should be subject to due diligence requirements.
- The definition of value chain should be updated to adequately reflect the unique characteristics of the insurance industry, and it should be confined to established direct business partners.
- The Directive should not include any civil liability restrictions. If Article 22 is kept, it is critical that due diligence obligations be reasonable, transparent, proportionate, and attainable.
- In terms of monitoring, more clarification is required.
- The proposed directive's 500+ headcount criteria is too low and should be better linked with national legislation.

FCA published a portfolio letter it has sent to Lloyd's and London market intermediaries and managing general agents.

On May 25, 2022 the Financial Conduct Authority (FCA) published a portfolio letter it has sent to Lloyd's and London market intermediaries and managing general agents which highlights its disappointment on the progress made on diversity and inclusion. It reiterates “that there is a significant risk that poor underlying cultures may lead to poor customer outcomes and impact the integrity of the market. Firms need to show they are working towards having a diverse workforce at all levels and that non-financial misconduct is addressed within an organisation”.

Insurers call on EC to clarify cyber security rules.

On May 26, 2022 Insurance Europe responded to the European Commission's consultation on its proposed Cyber Resilience Act.

Insurance Europe insisted that the insurance industry’s use of digital products should be left outside of the scope of such an Act, since the sector will be governed by the forthcoming Digital Operational Resilience Act.

Nevertheless, Insurance Europe stressed the importance of clarifying the interplay between the two Acts and the need for consistency in the definitions used in the various pieces of EU legislation related to digital matters.

Insurance Europe published its 2021-2022 Annual Report.

On June 1, 2022 Insurance Europe published its 2021-2022 Annual Report, setting out the European insurance industry’s positions on the main insurance issues of the day.

Insurance

Topics include advancing sustainability and inclusivity, the review of Solvency II, the EU's Retail Investment Strategy, the use of artificial intelligence and much more.

The report also contains guest opinion pieces. These include contributions by Petra Hielkema, chairperson of the European Insurance and Occupational Pensions Authority, on the proposed global Insurance Capital Standard and by Joachim Wenning, chair of the board of management of Munich Re, on insurers' role in protecting against cyber risks.

Monthly update of the symmetric adjustment of the equity capital charge for Solvency II – end-May 2022.

On June 3, 20222 the European Insurance and Occupational Pensions Authority (EIOPA) published the technical information on the symmetric adjustment of the equity capital charge for Solvency II with reference to the end of May 2022.

The symmetric adjustment is regulated mainly in Article 106 of Directive 2009/138/EC (Solvency II Directive); Article 172 of the of the Delegated Regulation of Solvency II as well as in EIOPA's final report on ITS on the equity index for the symmetric adjustment of the equity capital charge.

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

On June 3, 2022 the European Insurance and Occupational Pensions Authority (EIOPA) published technical information on the relevant risk free interest rate term structures (RFR) with reference to the end of May 2022.

RFR technical information has been calculated on the basis of the content of the technical documentation under Background material and based on RFR coding released on 8 October 2019.

Technical information relating to risk-free interest rate (RFR) term structures is used for the calculation of the technical provisions for (re)insurance obligations.

In line with the Solvency II Directive, EIOPA publishes technical information relating to RFR term structures on a monthly basis via a dedicated section on EIOPA's Website also containing the release calendar for 2022, the RFR Technical Documentation, the RFR coding and Frequently Asked Questions.

With this publication, EIOPA ensures consistent calculation of technical provisions across Europe.

Insurance Europe: Policymakers, insurers and the public must work together to tackle protection gaps.

On June 2, 2022 Insurance Europe president, Andreas Brandstetter, urged policymakers, insurers and the public to work together to address the significant protection gaps that exist in societies and economies.

Brandstetter stressed the need for policymakers to ensure that regulatory frameworks are fit for purpose and that rules do not act as a barrier to either the protection insurers offer, or their capacity to invest in the economy.

It also highlighted that rules must not unnecessarily discourage insurers from using tools, like artificial intelligence and the increased volume of available data, that can help to further reduce protection gaps.

According to Brandstetter, the further development of multi-pillar pension systems - where insurers play a key role as providers of second and third pillar pensions - could help to make national pension systems more sustainable.

However, to achieve success, policymakers must be clear that the public needs to save more for retirement, and then encourage them to do so through tax incentives, pension tracking services or auto-enrolment. Brandstetter mentioned that policymakers must do their best to limit climate change, which is already significantly increasing the frequency and severity of natural catastrophes. At the same time, it is vital for urgent steps to be taken to adapt societies to an already changing climate.

While the primary responsibility for this lies with public authorities, insurers can also help these adaptation efforts via their extensive cutting-edge modelling capabilities and, where possible, the public should take steps to make their homes more resilient to natural catastrophe events. Awareness about the need to protect against cyber risks is increasing but more needs to be done, according to Brandstetter. Insurers can play a role, and an increasing number are making products available.

Insurance

To aid in this situation, policymakers can address this by allowing insurers access to cyber incident data in an aggregated and anonymised format. This would help insurers to increase their modelling capacity, and therefore the protection they can offer.

EIOPA consults on the advice on the review of the securitisation prudential framework in Solvency II.

On June 15, 2022 the European Insurance and Occupational Pensions Authority (EIOPA) published a consultation paper on the advice on the review of the Securitisation prudential framework in Solvency II.

The European Commission (EC) sent a call for advice to the Joint Committee of the European Supervisory Authorities (ESAs) on October 18, 2021. Specifically, EC sought assistance of the Joint Committee to assess recent performance of the rules on capital requirements (for banks and (re)insurance undertakings) and liquidity requirements (for banks) relative to the securitization framework's original objective of contributing to the sound revival of the EU securitization market on a prudent basis.

In this context, EIOPA has launched a data collection that includes a questionnaire to gather information that will be included in the final advice. This consultation paper seeks views from stakeholders on the main components of the call for advice, which include:

- Comparison of the securitization capital charges with other asset classes with similar characteristics;
- Practical or legal difficulties in investing in securitization with the STS label;
- Calculation for capital requirements for securitization (senior STS, non-senior STS, and Non-STS);
- Treatment for STS and non-STS securitizations;
- Link between the capital requirement of securitization and capital requirement of underlying exposures;
- Granularity of the treatment of tranches;
- Implementation of the hierarchy of approaches in Solvency II;
- Definition of agency and modelling risk and application to Solvency II.

EIOPA consults on its supervisory statements on exclusions in insurance products arising from systemic events and on the management of non-affirmative cyber exposures.

On June 17, 2022 the European Insurance and Occupational Pensions Authority (EIOPA) released two consultation papers on the following topics:

- the supervisory statement regarding exclusions related to systemic occurrences like pandemics, natural disasters, or significant cyberattacks; and
- the supervisory statement for non-affirmative cyber exposure management.

There is an increasing risk that insurance products may become unaffordable, or unavailable for systemic events. These systemic events also highlight the growing harm to consumers brought on by imprecise contract language and a lack of understanding regarding the covering of losses resulting from such events. This has resulted in disagreements between policyholders and insurance companies, damages to the industry's reputation, and large losses for all stakeholders.

EIOPA, in its supervisory statement, urges national competent authorities to take the following factors into account:

- Manufacturers of insurance products should evaluate if the applicable exclusions from coverage are obvious and whether the policyholders' contract is explicit
- Insurance producers are expected to evaluate the terms and conditions as well as the scope of coverage in case the risk resulting from a systemic event becomes uninsurable or it is unclear whether the risk is covered or not, considering the needs, goals, and traits of the identified target market
- More generally, while developing new products, consideration must be given to the demands, aims, and characteristics of the target market in relation to exclusions.

There may be a limit to what may and cannot be insured, but according to EIOPA, risks, especially those resulting from systemic occurrences, can be effectively managed, and assessed when coverage is transparent and tailored to the demands of the target market.

Insurance

EIOPA sees the European economy entering a phase of heightened uncertainty

On June 22, 2022 the European Insurance and Occupational Pensions Authority (EIOPA) published its Financial Stability Report where the major changes in the European (re)insurance and pensions sectors as well as the macroeconomic environment and its repercussions are evaluated. The European Union's economic situation is currently marked by increased uncertainty, according to EIOPA. Because of Russia's invasion of Ukraine, the macroeconomic situation has worsened. Increased costs for fossil fuels and imported goods are the result of Russia's military aggression and the following sanctions, which have further disrupted supply networks already under pressure from pandemic-related bottlenecks. Thus, a supply shock is currently affecting Europe, which is simultaneously slowing down the continent's economic development and raising inflationary pressures.
Moreover, financial markets have once again experienced volatility, which has been accompanied by an increase in interest rates as markets anticipate monetary tightening to contain inflation. Due to the current crisis, bond and stock values have dropped, and a further drop is definitely considered a possibility.
The Financial Stability Report also examines the risks associated with cyber security and climate change. A topical essay on how stress test outcomes may affect insurers' dividend payments and share buybacks is also included.

EIOPA's supervisory activities in 2021.

On June 24, 2022 the European Insurance and Occupational Pensions Authority (EIOPA) released its Annual Report on supervision activities. The report outlines the most significant outputs produced throughout the year, including a review of supervisory convergence priorities to assess current and upcoming problems from a prudential and conduct of business supervision viewpoint.

The coronavirus epidemic caused significant social unrest and unheard-of economic difficulties. By performing extraordinary actions like publishing two Supervisory Statements, EIOPA continued to support the industry and supervisors. One, relating to the undertakings' own risk and solvency assessment (the ORSA), concentrated on the oversight of the internal undertaking mechanisms required for identifying potential changes in the risk profile brought on by pandemics.

The expectations and procedures of supervisors in the event of a breach of the solvency capital requirement were covered in a second. From a supervisory convergence standpoint, EIOPA also concentrated (in 2021) on fresh topics such run-off portfolio supervision and environmental, social, and governance concerns.

In the area of Solvency II, EIOPA reviewed the Guidelines on Technical Provisions and Contract Boundaries to promote supervisory convergence in the supervision of the calculation of technical provisions, a crucial component of undertakings' balance sheets. This was done in response to lessons learned from supervisory practices as well as work done in relation to the Solvency II review.

Following the publication of the Thematic Review on Consumer Protection Issues in Travel Insurance, EIOPA also carried out monitoring work on the application of the warning of the problems regarding travel insurance products.

EIOPA has already released its Supervisory Convergence Plan for 2022, which outlines major areas of attention including the supervision of emerging risks, risks to the internal market and level playing field, and shared supervisory instruments.

Insurers welcome proposals for new EU system to avoid double taxation; call for refinements and clarifications.

On June 29, 2022 the European Commission conducted a consultation on withholding taxes and a new EU framework to prevent double taxation in the context of which there was a response by Insurance Europe.

More specifically, Insurance Europe applauded the proposal because the current regulations result in labor-intensive, intricate, and expensive withholding tax relief procedures.

Moreover, to maintain legal certainty regarding securities and intra-group payments, Insurance Europe believes that substance criteria should be standardized and that the Parent-Subsidiary Directive and the Interest and Royalties Directive should be defined.

In addition, to prevent discriminatory practices that go against the concept of free movement of capital, it is stated that taxpayers and tax authorities need legal certainty regarding whether withholding tax benefits that a source state denies to its own resident taxpayers are extended to foreign taxpayers.

MIFID II

ESMA made recommendations to improve investor protection.

ESMA published complementary annual transparency calculations.

On April 8, 2022 the European Securities and Markets Authority (ESMA) made available additional results of the annual transparency calculations for equity and equity-like instruments. The ESMA previously communicated these calculations on 1 March and supplemented them on 31 March.

Calculations include the:

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

Market participants are invited to:

- monitor the release of the transparency calculations for equity and equity-like instruments on a daily basis to obtain the estimated calculations for newly traded instruments and the four-weeks' calculations applicable to newly traded instruments after the first six-weeks of trading; and
- refer to the ESMA's Q&As on MiFID II and MiFIR transparency topics (section 3, question 3), for the temporary parameters to be applied in the case of one or more of the transparency parameters is not published.

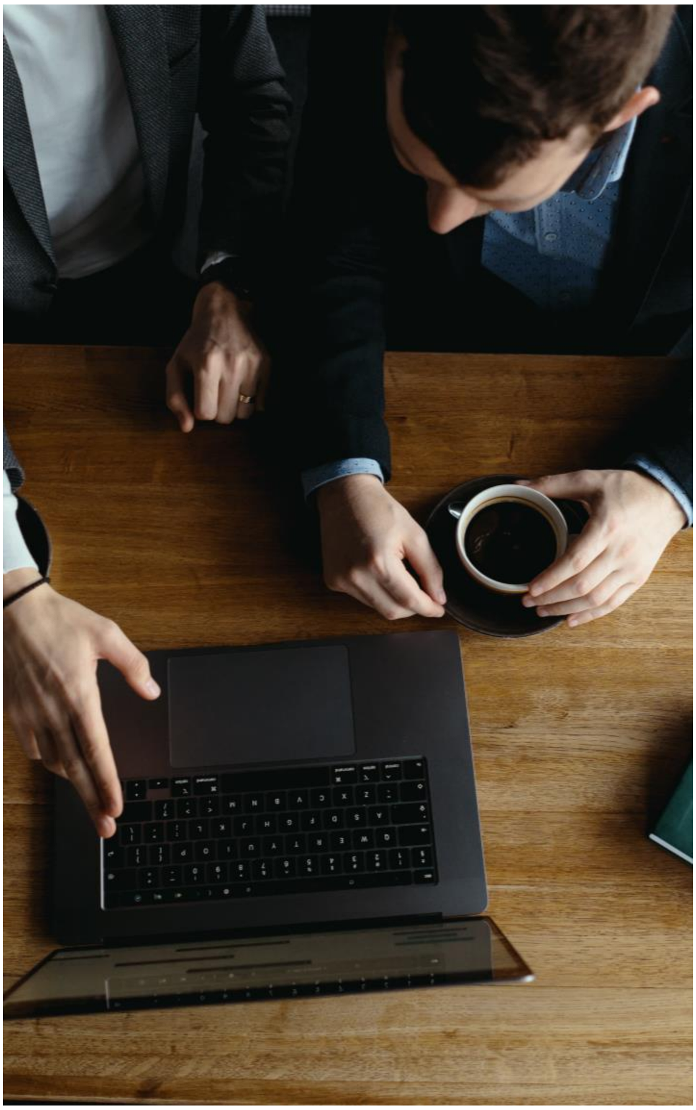
The transparency requirements based on the additional results of the annual transparency calculations now published, for equity and equity-like instruments will apply from no later than 14 April 2022 until 31 March 2023. From 1 April 2023 the next annual transparency calculations for equity and equity-like instruments will become applicable.

ESMA made recommendations to improve investor protection.

On April 29, 2022 the European Securities and Markets Authority (ESMA) issued a final report on the European Commission mandate on certain aspects relating to retail investor protection under MiFID II. The Commission sent a formal request (mandate) to the ESMA last year seeking technical advice on certain aspects relating to retail investor protection with great focus on disclosures, digital disclosures and digital tools and channels. The final report sets out the ESMA final proposals and includes summaries of the feedback that it received to a Call for Evidence that it published last October.

Recommendations by ESMA include:

- Requiring machine readability of disclosure documents to facilitate the development of searchable databases available to the public.
- Addressing information overload by proposing to define what is vital information is and by using digital techniques such as layering of information.
- Development of a standard EU format of information on costs and charges and aligning the disclosures under MiFID and the PRIIPs KID.
- Possibility for Member State competent authorities and the ESMA to impose on firms the use of risk warnings for specific financial instruments.
- Addressing aggressive marketing communications.
- Addressing issues related to misleading marketing campaigns on social media and the use of online engagement practices, such as the use of gamification techniques by firms or third parties.



ESMA published the annual transparency calculations for non-equity instruments and the quarterly systematic internaliser calculations.

On April 29, 2022 the European Securities and Markets Authority (ESMA) made available the results of the annual transparency calculations for non-equity instruments other than bonds and the quarterly systematic internaliser calculations.

The data which is published on a voluntary basis covers the total number of trades and total volume over the period October 2021 to March 2022 for the purpose of the systematic internaliser (SI) calculations under MiFID II for:

- 24,326 equity and equity-like instruments.
- 126,788 bonds.
- 5,328 sub-classes of derivatives (including equity derivatives, interest rate derivatives, commodity derivatives, emission allowance).

In addition, the ESMA supports the Commission's proposal to prohibit the receipt of payment for order flow to adequately address the serious investor protection risks arising from this practice.

Risk Management

ECB published its Financial Stability Review considering implications from the recent geopolitical and energy crisis.

Ratings & Credit Risk

EBA Risk Dashboard indicates limited direct impact on EU banks from the Russian invasion of Ukraine but also points to clear medium-term risks.

On April 1, 2022 the European Banking Authority (EBA) published its Risk Dashboard for the fourth quarter (Q4) of 2021. A special feature highlights the potential impact of the Russian invasion of Ukraine on the EU/EEA banking sector. Based on the EBA's initial assessment, direct exposures to Russia, Belarus and Ukraine are limited, but second-round effects may be more material from a financial stability perspective. Other findings of the Risk Dashboard include:

- EU bank capital and liquidity ratios remained strong;
- Profitability stabilised at higher levels than in the pre-pandemic period;
- Non-performing loan (NPL) ratios declined as asset quality continued to improve;
- Cyber and information and communication technology (ICT) related risks remain high.

EIOPA issued supervisory statement on supervision of run-off undertakings.

On April 7, 2022 the European Insurance and Occupational Pensions Authority (EIOPA) published the supervisory statement on supervision of run-off undertakings.

The aim of the statement is to ensure that a high-quality and convergent supervision is applied to run-off undertakings and portfolios while taking into account their specific nature and risks, the principle of proportionality and the prudent person principle.

The supervisory statement focuses on full, partial and specialized run-off undertakings.

The run-off business model – when properly and fairly managed – can bring benefits for the insurance market and policyholders by enabling cost reduction, introduce improvements in the business management or by making orderly exits from the market to avoid the materialization of risks.

EBA published final draft technical standards on the risk retention requirements for securitizations.

On April 12, 2022 the European Banking Authority (EBA) published its final draft Regulatory Technical Standards (RTS) specifying the requirements for originators, sponsors and original lenders related to risk retention as laid down in the Securitisation Regulation and as amended by the Capital Markets Recovery Package (CMRP). These RTS aim to provide clarity on the risk retention requirements ensuring a better alignment of interests and reducing the risk of moral hazard, thus contributing further to the development of a sound, safe and robust securitisation market in the EU.

The minimum retention requirement of 5% of the material net economic interest in the securitisation is essential to ensure that the sell-side parties have "skin in the game" addressing the fundamental issue of the possible misalignment of interest between the originators, sponsors and original lenders and investors.

Finally, while these RTS will replace the existing 2014 Commission Delegated Regulation, the Securitisation Regulation contains transitional provisions regarding the application of the existing Delegated Regulation to those securitisations whose securities were issued before its application date.

EBA updated technical standards in view of its 2023 benchmarking of internal approaches.

On May 5, 2022 the European Banking Authority (EBA) published an update to its Implementing Technical Standards (ITS) which specify the data collection for the supervisory benchmarking exercise of 2023 in relation to the internal approaches used in market and credit risk and IFRS 9 accounting.

The updated ITS include all benchmarking portfolios and metrics that will be used for the 2023 exercise. The benchmarking exercise is an essential supervisory tool to monitor and enhance the quality of internal models, which are relevant for the assessment of the institution's capital adequacy.

EBA published peer review on management of non-performing exposures.

On May 17, 2022 the European Banking Authority (EBA) published a report of its peer review of how prudential and consumer protection authorities supervise the management of non-performing exposures (NPE) by institutions and have implemented the EBA Guidelines on the management of NPE.

The findings of the report indicate that EU competent authorities have applied a risk-based approach to the supervision of NPE management by the institutions. Moreover, the competent authorities from jurisdictions with a higher NPE level are more engaged with credit institutions under their supervision on the topics of NPE management and have implemented more sophisticated supervisory processes for NPE supervision.

The findings also show that the EBA Guidelines on management of non-performing and forborne exposures have been implemented on a large scale by prudential and consumer protection competent authorities and were also applied in their supervisory practices. Despite the fact that no significant concerns regarding NPE supervision practices were identified, the EBA set a number of general recommendations for further improvements. Finally, the report also includes recommendations to the EBA regarding the incorporation of a number of identified best practices into the Guidelines on management of non-performing and forborne exposures, when the latter will be reviewed in the future.

ECB Financial Stability Review: Russia-Ukraine war increases financial stability risks.

On May 25, 2022 the European Central Bank (ECB) published the May 2022 Financial Stability Review. The financial stability conditions in the euro area have worsened as the Russian invasion of Ukraine leads to higher energy and commodity prices and increases risks to euro area inflation and growth.

The market reaction to the Russian invasion of Ukraine has been largely orderly. However, prices for commodities and energy have remained elevated and volatile, which has caused some stress in derivatives markets for these products. Despite recent adjustments, some assets remain at risk of further corrections should the growth outlook weaken further and/or inflation turn out to be significantly higher than expected.

Euro area non-financial corporations face challenges from rising input prices and a more clouded economic outlook. This may increase corporate defaults, especially for firms and sectors that have not yet fully recovered from the pandemic. Moreover, highly indebted firms and those with lower credit ratings may struggle with tighter financing conditions.

The profitability prospects for European banks have weakened again, following a strong recovery in 2021. The potential impact of increased energy prices, higher inflation and weaker growth could cause asset quality risks to materialise.

Systemic risk and policy interventions: monetary and macroprudential policy.

On June 24, 2022 the European Central Bank (ECB) published an article regarding monetary and macroprudential policy frameworks. Throughout the world, the global financial crisis fostered the design and adoption of macroprudential policies to safeguard the financial system. This raises important questions for monetary policy, which, by contrast, primarily focuses on maintaining price stability. What, if any, is the relationship between (conventional) monetary policy and macroprudential policy? In particular, how does the effectiveness of macroprudential policies influence the conduct of monetary policy? This article reviews recent theoretical and empirical research addressing these questions. The main conclusion is that monetary policy can also perform macroprudential functions, but it does so by deviating from its focus on price stability. The quantification of this trade-off remains an exciting question.

Risk Management

Using the ECB macroprudential stress testing framework for policy assessment – lessons learned from the COVID-19 pandemic.

On June 13, 2022 the European Central Bank (ECB) published an article which summarises the experience of applying the ECB macroprudential stress testing framework to assess the financial policy response to the COVID-19 pandemic. Macroprudential stress testing addresses uncertainty about future economic developments by offering the possibility of designing various plausible macro-financial scenarios. Leveraging this capacity, it could also support the timely and fitting assessment of prudential policies considered in response to the outbreak of the pandemic, providing guidance on the sufficiency of capital releases and encouraging the use of capital buffers by financial institutions. Moreover, macroprudential stress testing is an effective tool for assessing the impact of instruments to be implemented on the path towards normalisation of macroprudential policy in exiting the pandemic.

Recovery/ Resolutions

EBA consults on guidelines to resolution authorities on the publication of their approach to implementing the bail-in tool.

On June 7, 2022 the European Banking Authority (EBA) launched a public consultation on its draft guidelines addressed to resolution authorities for the publication of their approach to implementing the bail-in tool. The guidelines aim to ensure that a minimum level of harmonised information is made public with regard to the mechanics underpinning the execution of the bail-in tool. The consultation runs until 7 September 2022.

Transparency and predictability are key, both to the credibility of the resolution framework, and to the safeguard of investors' protection. Practices by institutions and authorities differ with regard to the publication of information on how they would effectively execute the write down and conversion of capital instruments and the use of the bail-in tool ("exchange mechanic").

All resolution authorities that have not yet published their bail-in mechanic are expected to start publishing a high-level document from January 2024 setting out the key aspects of their preferred approach.

In particular, they should indicate whether they intend to make use of interim instruments. All the resolution authorities that have already published such information are expected to check if their publication complies with the EBA draft guidelines.

Risk-Weighted Assets

EBA published final technical standards on crowdfunding service providers.

On May 13, 2022 the European Banking Authority (EBA) published its final draft Regulatory Technical Standards (RTS), on the information provided by crowdfunding service providers to investors regarding the calculation of prices of crowdfunding offers and credit scores.

Because of the fact that Investors using crowdfunding platforms can be exposed to the risk of having insufficient information, and/or incomplete understanding of the viability of a crowdfunding project, it is important that adequate information on how credit scores are calculated, and crowdfunding offers are priced, is disclosed to investors.

In this context, the final draft RTS provide specification on the information to be considered when conducting the creditworthiness assessment of project owners and crowdfunding projects. Moreover, they specify the information that crowdfunding service providers shall disclose with respect to the method used to calculate credit scores assigned to crowdfunding projects and prices of crowdfunding offers, and how to ensure that loan pricing is indeed fair and appropriate.

Finally, the final draft RTS indicate what policies and procedures crowdfunding service providers are required to have in place to ensure that credit risk assessment and loan valuation are conducted in a sound and consistent manner and that investors are adequately informed.

Surveys and Statistics

SREP IT Risk Questionnaire 2022.

On April 26, 2022 the European Central Bank (ECB) published its 'Information Technology Risk Questionnaire' (ITRQ) 2022, covering the period from 1 January 2021 to 31 December 2021.

The design of the questionnaire is based on the European Banking Authority (EBA) Guidelines on ICT Risk Assessment under the Supervisory Review and Evaluation process (SREP) (EBA/GL/2017/05). The ITRQ, is an integral part of the risk assessment methodology developed by National Competent Authorities in cooperation with the ECB and includes horizontal analyses on IT risk topics, thematic reviews as well as a reporting framework for significant cyber incidents that affect supervised credit institutions.

Finally, the questionnaire can be subject to updates to reflect the evolution of regulation and best practice in the domain of IT risk.

Other General aspects

EBA provided its advice to the EU Commission on non-bank lending.

On May 4, 2022 the European Banking Authority (EBA) issued a report on non-bank lending. The report is in response to the European Commission's February 2021 Call for Advice on this topic.

The report is based on a survey that the EBA launched among Member State competent authorities to gather information about entities carrying out non-bank lending in their jurisdictions. In particular, the survey collected information on the presence of certain business models whereby lending activities were carried out by non-bank entities, and any regulatory requirements that are applicable at local level. The survey also collected the views of supervisors on the risks currently posed by non-bank lending activities in the EU.

The report:

- Provides a brief overview of the most recent trends and market developments both in the EU and outside the EU on lending provided by non-bank entities with a particular focus on BigTechs and FinTechs (section 2).
- Outlines the EU legislative framework (section 3).
- Summarises the results of the survey conducted at Member State competent authorities in terms of business models and applicable regulatory frameworks (sections 5 and 6).
- Covers the main issues identified in the area of supervision and scope of prudential regulation, consumer protection, anti-money laundering, macro-prudential and micro-prudential risks (section 7).
- Sets out proposals for the risks that have been identified (section 8).

FCA published its newsletter on market conduct and transaction reporting issues.

On May 17, 2022 the Financial Conduct Authority (FCA) published its newsletter on market conduct and transaction reporting issues that focuses on organisations' arrangements for market abuse surveillance. The observations draw on the FCA's considerations from engaging with small and medium-sized firms. Areas covered include market abuse risk assessments, order and trade surveillance, policies and procedures, outsourcing and front office. Also covered is countering the risk of market abuse-related financial crime and investigations into potential market abuse by firms' employees.

ESMA published report on highly liquid instruments.

On May 19, 2022 the European Securities and Markets Authority (ESMA) issued a final report on highly liquid financial instruments for central counterparty (CCP) investment policies under the European Market Infrastructure Regulation (EMIR).

Key findings in the final report include:

- Further work is to be done by the ESMA regarding the extension of the list of eligible financial instruments to certain public entities and potentially to covered bonds pending further research. Further work will also be pursued within the CCP supervisory committee to ensure a common supervisory approach regarding CCP investment practices.
- It would be premature to allow CCP investments in MMFs, as no category of MMFs currently meets all the conditions that define highly liquid financial instruments. The forthcoming review of the MMF Regulation is expected to assess possible changes to the regulatory framework that might make EU MMF adequate for CCP investments.

The final report has been sent to the Commission. The ESMA will consider further work to potentially amend relevant sections of regulatory technical standards or other relevant level 3 measures.

EBA published final technical standards to identify shadow banking entities.

On May 23, 2022 the European Banking Authority (EBA) published the final draft regulatory technical standards specifying the criteria to identify shadow banking entities for the purposes of reporting large exposures. Following the European Commission endorsement, these standards will be subject to scrutiny by the European Parliament and the Council, before being published in the Official Journal of the European Union.

The final draft regulatory technical standards clarify that entities carrying out banking activities or services that have been authorized and supervised in accordance with the regulatory framework consisting of any of the legal acts referred to in Annex I of these draft regulatory standards (or are part of a group supervised on this basis) shall not be considered as shadow banking entities. Similarly, the entities that have been exempt or excluded from the application of some of those Legal Acts, notably the Capital Requirements Regulation (CRR), the Capital Requirements Directive (CRD), the European Market Infrastructure Regulation (EMIR), and Solvency II, shall not be considered as shadow banking entities. However, all other entities that provide banking activities and services shall be considered shadow banking entities.

EBA consults on technical standards on the identification of a group of connected clients.

On June 8, 2022 the European Banking Authority (EBA) launched a public consultation on draft Regulatory Technical Standards (RTS) on the identification of a group of connected clients (GCC). The draft RTS, in conjunction with the EBA Guidelines on connected clients, provide the complete framework for the identification of the GCC. The consultation runs until 8 September 2022.

The objective of the definition of a GCC is to identify two or more natural or legal persons who are so closely linked by idiosyncratic risk factors that it is prudent to treat them as a single risk.

These draft RTS aim at setting out clear circumstances where interconnections by means of a control and/or an economic dependency relationship can lead to a single risk and thus a grouping requirement.

In addition, the draft RTS set out rebuttable provisions for the assessment of situations where control and economic dependencies coexist and thus one overall GCC, as opposed to two or more separate GCC, needs to be formed.

EBA responded to EC’s call for advice on the PSD2.

On June 23, 2022 the European Banking Authority (EBA) responded to the European Commission’s call for advice on the review of the revised Payment Services Directive (PSD2). The EBA’s response takes the form of an opinion and a report and offers more than 200 proposals to help develop the EU retail payments market.

The EBA’s proposals include:

- Merging the PSD2 and the Electronic Money Directive.
- Clarifying the application of strong customer authentication (SCA) and the transactions in scope.
- Addressing new security risks for customers such as social engineering fraud where customers are tricked into initiating a payment transaction.
- Addressing concerns about authentication approaches (e.g. based on smartphones) that have led to exclusion of certain groups of society from using payment services online.
- Moving from “Open banking”’ to “Open finance” (or otherwise the expansion from access to payment accounts data towards access to other types of financial data) and the opportunities and potential challenges associated with it, based on the PSD2 experience.
- Addressing unwarranted de-risking practices by banks affecting payment and e-money institutions.

Other

BoG published the Financial Stability Report

IFRS Foundation published 2021 annual report.

On April 4, 2022 the IFRS Foundation published its annual report for the year ended 31 December 2021. The report includes letters from the new Chair of the International Accounting Standards Board (IASB) Andreas Barckow; Chair of the IFRS Foundation Trustees Erkki Liikanen; and Chair of the IFRS Foundation Monitoring Board Jean-Paul Servais.

Moreover, the steps taken to form the new standard-setting board (i.e. International Sustainability Standards Board), announced at the COP26 climate change conference in November 2021 and the publication of the Foundation's revised Constitution, which was updated after broad consultation to accommodate the new board, are also discussed in the respective report. Finally, the report includes a discussion about the IASB's Third Agenda Consultation and also about case studies on some of the year's achievements.

ESAs published joint Annual Report for 2021.

On April 19, 2022 the Joint Committee of the European Supervisory Authorities (ESAs) published its 2021 Annual Report, providing a detailed account of its joint work completed over the past year.

The main areas of cross-sectoral focus, according to the Report, were the enhancement of consumer protection, joint risk assessment, securitisation and development of the regulatory and supervisory frameworks for sustainable finance. In addition, the work programme was completed through monitoring and contributing to the digital finance developments.

Finally, the key workstreams described in the Report include, among other, the development of the regulatory and supervisory framework for sustainability-related disclosures, extensive technical discussions on topics such as crypto-assets and digital operational resilience and the delivery of a report on the implementation and functioning of the Securitisation Regulation as well as an Opinion on its jurisdictional scope.

The economic impact of Next Generation EU: a euro area perspective.

On April 27, 2022 the European Central Bank (ECB) published a working paper on the economic impact of Next Generation EU.

The paper assesses the potential economic impact of Next Generation EU (NGEU), focusing on the euro area. Its findings suggest that the envisaged national investment and reform plans present a coherent package to support both recovery from the pandemic-induced crisis and longer-term modernization of the euro area economy through their digital and green transitions. NGEU, however, can only unfold its full potential if all plans are implemented in a timely and effective way. We estimate the impact of the national plans on output, inflation and public debt using ECB staff economic models under the assumption of successful implementation. Specifically, NGEU is expected to take effect through three channels: structural reform, fiscal stimulus and risk premium. Overall, NGEU may increase gross domestic product (GDP) in the euro area by up to 1.5% by 2026, with the impact expected to be significantly larger in the main beneficiary countries. In Italy and Spain, two of the main beneficiaries, the public debt-to-GDP ratio may be more than 10 percentage points lower by 2031. At the same time, all euro area countries are expected to benefit from NGEU through positive spillovers, greater economic resilience and convergence across countries.

Finally, the effect of NGEU on euro area inflation over the medium term is deemed to be contained to the extent that the inflationary effect of additional public expenditure is offset, at least to some degree, by the disinflationary effect of greater productive capacity resulting from the planned structural reform and investment measures.

ECB - Annual Report 2021.

On April 28, 2022 the European Central Bank (ECB) published its annual Report for the year 2021. According to the Report, the economy rebounded strongly, with real GDP growing by 5.3%, although growth slowed at the end of the year as the Omicron wave of the coronavirus (COVID-19) led to new restrictions being introduced. The recovery proved job-rich too, with the unemployment rate falling to a record low by year-end.

Other

However, the recovery was marked by frictions as the economy rapidly reopened. Though the euro area began 2021 with very low inflation, pandemic-induced supply constraints, a rebound in global demand and surging energy prices meant that inflation increased sharply. Annual headline inflation was 2.6% on average in 2021, compared with just 0.3% in 2020.

The ECB concluded its monetary policy strategy review in 2021. This updated our strategy to address new challenges and provided us with a playbook for managing this complex situation. The Governing Council adopted an inflation target of 2% over the medium term, which is simple and easily understood. It is symmetric, with deviations from the target on both sides seen as equally undesirable.

NextGenerationEU: European Commission raised a further €9 billion in support of Europe's recovery and resilience.

On May 11, 2022 the European Commission issued €9 billion in a dual tranche transaction under the NextGenerationEU recovery instrument. The deal is the 9th syndicated transaction under NextGenerationEU, and the 4th of 2022. It consisted of a new 3-year bond of €6 billion due on 4 July 2025 and a €3 billion tap of an existing 30-year bond due on 6 July 2051. This is the first 3-year bond the Commission has issued under its diversified funding strategy. With its sale, the Commission has now established its issuances across the full spectrum of long-term bond maturities (3 to 30 years).

The transactions attracted very strong interest by investors. The 30-year bond was over 16 times oversubscribed with bids exceeding €48 billion, thus becoming the most oversubscribed NextGenerationEU transaction to date.

The Commission will continue using the funds raised to support Europe's recovery and resilience, financing Member States under the Recovery and Resilience Facility as well as under other programmes.

Financial Stability Report of the Bank of Greece (May 2022).

On May 12, 2022 the Bank of Greece (BoG) published the Financial Stability Report, which examines the developments in the banking system that took place during 2021.

In particular, this report, which is published by the BoG on a semi-annual basis, assesses developments, identifies the main risk factors of the domestic banking sector and other branches of the financial system and analyzes the operation of financial market infrastructure (ie systems). payments, payment cards, securities repositories and CCPs).

State aid: Commission will phase out State aid COVID Temporary Framework.

On May 12, 2022 the European Commission announced that will phase out the State aid COVID Temporary Framework, adopted on 19 March 2020 and last amended on November 18, 2021 enabling Member States to remedy a serious disturbance in the economy in the context of the coronavirus pandemic. The State aid COVID Temporary Framework will not be extended beyond the current expiry date, which is 30 June 2022 for most of the tools provided. The existing phase-out and transition plan will not change, including the possibility for Member States to provide specific investment and solvency support measures until 31 December 2022 and 31 December 2023 respectively, as already announced in November last year.

ESMA makes recommendations for disclosures of expected impacts of IFRS 17 application.

On May 13, 2022 the European Securities and Markets Authority (ESMA) issued a Public Statement on the Transparency on implementation of IFRS 17 Insurance Contracts.

ESMA recommendations cover the disclosures of expected impacts of the initial application of IFRS 17 in the interim and annual financial statements for 2022. ESMA expects management and supervisory boards members and auditors to consider these recommendations, when fulfilling their respective obligations relating to the issuer's interim and annual financial statements 2022.

Given the expected impact and importance of IFRS 17 specifically for insurance undertakings and financial conglomerates, ESMA highlights the need for issuers to provide relevant and comparable information in their financial statements that enables users to assess the possible impact that IFRS 17 will have in the period of initial application.

Other

Furthermore, ESMA notes that the scale of the changes introduced by IFRS 17 and the level of judgement involved in its application require that issuers inform users of financial statements, on a timely basis, about the expected impact of the new requirements in a gradual, but effective manner.

Management and supervisory bodies of issuers and their auditors should take this Public Statement into consideration in their work during the implementation of IFRS 17, particularly when disclosing and auditing information in the IFRS financial statements (annual and interim) on the (expected) effects of this Standard.

EBA adopted decision on supervisory reporting for intermediate EU parent undertaking threshold monitoring.

On May 18, 2022, the European Banking Authority (EBA) adopted a decision on supervisory reporting for EU parent undertaking (IPU) threshold monitoring for those entities belonging to third country groups, including third-country branches. Competent authorities shall report to the EBA information on the total value assets held by these entities within the scope of their jurisdiction in the format specified in the Annexes to the Decision.

The EBA will provide feedback to the relevant competent authorities for each third country group in order to facilitate cooperation between the competent authorities and support their IPU decision process.

Financial Stability Review, May 2022.

On May 25, 2022 the European Central Bank (ECB) published its Financial Stability Review (FSR) which has been prepared against the backdrop of the war in Ukraine.

The war in Ukraine is affecting the global economy by prompting repricing in financial markets and by dampening the confidence of businesses and consumers. The rising energy and commodity prices are pushing up inflation and hinder economic recovery.

In this Context, the FSR assesses financial stability vulnerabilities and their implications for financial markets, debt sustainability, bank resilience, the non-bank financial sector and macroprudential policies. It also includes two special features on topics.

The first focuses on recent advances in the monitoring of financial stability risks stemming from climate change, while the second special feature explores risks arising from crypto-assets.

The FSR's purpose is to promote awareness of systemic risks among policymakers, the financial industry and the public at large, with the ultimate goal of promoting financial stability.

FSB and IMF announced completion of the G20 Initiative to close Data Gaps identified in the Global Financial Crisis.

On June 9, 2022 the Financial Stability Board (FSB) and International Monetary Fund (IMF) published a report to mark the completion of the second phase of the G20 Data Gaps Initiative (DGI-2). This report also lays out priorities for a new initiative led by the IMF to address gaps relating to emerging policy needs.

The report finds that significant progress has been made in addressing data gaps identified during the global financial crisis of 2007-08 through the two phases of the Data Gaps Initiative, including in the development of conceptual frameworks, and improvements in data coverage, timeliness, and periodicity. However, despite the progress made during the initiative, challenges remain for some participating economies in fully closing data gaps related to some DGI-2 recommendations.

BIS Quarterly Review, June 2022.

On June 13, 2022 the Bank for International Settlements (BIS) published its Quarterly Review on International banking and financial market developments.

The review includes certain key takeways such as the fact that cross-border financial centres, catering predominantly to non-residents, have become an entrenched feature of the global financial system. In addition, it is highlighted that geography, regulation and taxation work against the natural tendency of financial activity to concentrate in a few global financial centres. It is also stated that the importance of foreign direct investment in cross-border centres, mainly in the form of funds that only pass through, is indicative of substantial activity motivated by tax considerations.

Other

The structure of the Quarterly is described as follows:

- The first section defines different types of financial centres.
- The second section outlines the growth of activity in cross-border centres, before turning to the factors that influence a country's emergence and persistence as such a centre.
- The third and concluding section outlines potential challenges to regulatory consistency and transparency arising from the role of cross-border centres in international intermediation.

EIOPA Publication of the Annual Report 2021.

On June 14, 2022 the European Insurance and Occupational Pensions Authority (EIOPA) published its Annual Report 2021, setting out its activities and achievements of the past year.

According to the Report, consumer protection remained a priority, and EIOPA responded to concerns surrounding some unit-linked products with a framework to address value for money issues.

Concerning the area of insurance supervision, EIOPA issued a set of criteria for the independence of supervisory authorities, a key tool to ensure the legitimacy and credibility of the supervisory process. Moreover, EIOPA broadly welcomed the proposals of the European Commission on the review of Solvency II and continues to support the review process.

Regarding Sustainable finance and digitalisation EIOPA maintained its focus on supporting the sectors and the supervisory community manage the transition to the green and digital economy.

From a financial stability perspective, EIOPA continued to identify trends and potential risks and vulnerabilities that could have an adverse effect on the pension and insurance sectors across Europe. The insurance stress test exercise, that focused on a prolonged COVID-19 scenario in a "lower for longer" interest rate environment, was a key tool to test the resilience of the sector.

In the area of pensions, EIOPA welcomed the entry into force of the regulation for a pan-European Personal Pension Product (PEPP) and also submitted to the European Commission its advice on setting-up pensions dashboards and tracking systems to further address pension gaps.

EBA highlights main achievements in 2021 in its Annual Report.

On June 15, 2022 the European Banking Authority (EBA) published its Annual Report including a detailed description of the activities and achievements of the Authority in 2021 and also providing an overview of the key priorities for the coming year.

During 2021, the EBA not only continued to work under the exceptional circumstances brought by the COVID-19 pandemic, but also underwent meaningful organisational changes to reflect the shifting priorities of its mandates and work programme. In more detail, the reorganisation saw the formation of new Units to reflect the growing importance of topics such as environmental, social and governance (ESG), digital finance, reporting and transparency, and anti-money laundering (AML).

In 2021, the EBA continued to monitor the implementation of the Basel III regulatory framework and made the Basel III monitoring exercise mandatory as of December. The EBA also carried out its biennial EU-wide stress test exercise, assessing the resilience of financial institutions to adverse market developments. Moreover, the EBA conducted its annual EU-wide transparency exercise, which included detailed information for 120 banks across 25 EEA / EU countries. The results of the transparency exercise were accompanied by the publication of the Risk Assessment Report.

The 2021 Annual Report also includes the strategic priorities for 2022, (e.g. the review of the stress-testing framework, the implementation of the mandates in the area of AML/CFT, financial innovation and sustainable finance).

In this date the EBA also published the Consolidated Annual Activity Report (CAAR) which measures the EBA's main activities based on the efficiency and effectiveness of the internal control systems.

BIS Annual Report 2021/22.

On June 26 2022, the Bank for International Settlements (BIS) published its Annual Report.

Other

The Report highlights, among other things, the steps the BIS has taken to deliver on its Innovation BIS 2025 strategy. In more detail during 2021/22, BIS passed the halfway point in the overall timeline of its Innovation BIS 2025 strategy and has now delivered on around 60% of its goals. Moreover, in 2022, the BIS Innovation Hub saw a new phase of expansion, with the opening of its London and Nordic Hub Centres, and made excellent progress on projects that address priority areas in central banks' innovation agendas.

It also includes measures to respond to the challenges facing central banks such as the effects of the Covid-19 pandemic, higher than expected inflation and the impact of the war in Ukraine.

EBA publishes its final Guidelines on data collection exercises regarding high earners.

On June 30, 2022 the European Banking Authority (EBA) published its final updated Guidelines on the data collection exercise on high earners (originally released in 2012 and revised in 2014).

The data collection exercises' update reflects the amended remuneration framework as described in the Capital Requirements Directive (CRD), and also the introduction of derogations to pay out a part of the variable remuneration in instruments and under deferral arrangements. Additionally, the need to update these Guidelines originated from the specific remuneration regime which has been introduced for investment firms and described in the Investment Firms Regulation (IFR) and Investment Firms Directive (IFD).

The CRD and the IFD require competent authorities to collect (per institution and investment firm respectively) information on the number of natural persons who are remunerated EUR 1 million or more per financial year, in pay brackets of EUR 1 million. In Addition, details concerning other factors such as, among others, their job responsibilities, the business area and the main elements of the salary should also be provided.

Finally, the EBA highlighted that Institutions, investment firms and competent authorities should check the accuracy and consistency of data before submission.

EC releases a new strategy to drive its internal digital transformation.

On June 30, 2022 the European Commission (EC) adopted a new Digital Strategy under the theme "Next Generation Digital Commission". This corporate strategy sets out a vision for a digitally transformed, more agile administration that will contribute to the achievement of the EU's strategic priorities, including Europe's Digital Decade and the European Green Deal.

Building on the previous (2018) digital strategy of the EC, the new strategy includes a corporate approach to refocus on digital modernisation and innovative service provision as well as further streamline current IT initiatives.

In more detail, the corporate strategy encompasses five strategic objectives as follows:

1. Foster a digital culture by empowering all staff and equipping them with the necessary skills and tools;
2. Enable digital-ready EU policymaking by ensuring digital technologies are considered from the very beginning of the policy cycle, making new policies fit for the Digital Decade;
3. Empower business-driven digital transformation by supporting EC departments in reinventing their business by leveraging innovative technologies and data reuse;
4. Ensure a seamless digital landscape through the efficient management of a streamlined portfolio of IT systems;
5. Sustain a green, secure and resilient infrastructure as the foundation of the Commission's operations and new ways of working.

The new strategy brings the shift from digital skills to digital culture, from using technology as a service to digitalisation of business and support to digital-ready policymaking amongst others.

Appendix: Glossary

AANA

Aggregate Average Notional Amount

AML/CFT

Anti-Money Laundering and Countering the Financing of Terrorism

AI

Artificial Intelligence

AISPs

Account Information Service Providers

AIFMD

Alternative Investment Funds Market Directive

BCBS

Basel Committee on Banking Supervision

BIS

Bank of International Settlements

BMR

EU Benchmark Regulation

CDD

Customer Due Diligence

CRD IV

Capital Requirements Directive IV

DGSs

Deposit Guarantee Schemes

DLT

Distributed Ledger Technology

DRSP

Data Reporting service providers

EBA

European Banking Authority

ECON

Economic and Monetary Affairs Committee

EIOPA

European Insurance and Occupational Pensions Authority

EP

European Parliament

ESAs

European Supervisory Authorities

ESG

Environmental, Social and Governance

FICC

Fixed Income Clearing Corporation

GAR

Green Asset Ratio

IOSCO

International Organization of Securities Commissions

IAS

International Accounting Standards

Appendix: Glossary

IFRS

International Financial Reporting Standards

IT

Information Technology

ITS

Implementing Technical Standards

LCR

Liquidity Coverage Ratio

LIBOR

London Inter-Bank Offered Rate

MiCA

Markets in Crypto Assets

NPEs

Non-Performing Exposures

NPL

Non-Performing Loans

P2B

Platform to Business

PISPs

Payment Initiation Services Providers

RTS

Regulatory Technical Standard

RegTech

Regulatory Technology

RWAs

Risk weighted assets

SFDR

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

SFTR

Securities Financing Transactions Regulation

SFT

Securities Financing Transactions

SupTech

Supervisory Technology

OTC

Over-the-Counter

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