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RISK & REGULATORY INSIGHTS

QUARTERLY NEWSLETTER

REGULATORY UPDATES

October 2021

HIGHLIGHTS

Passed mid-year 2021 and as we are approaching year end, 3rd quarter activities in almost all areas have been intensified and we note numerous evolutions at various topics.

Key highlights regarding major developments in the areas of AML, Capital Markets, Corporate Governance, ESG, Fintech, MIFID II and Risk Management, are presented below, while a more analytical depiction of the detailed regulatory actions (guidance - consultations, decisions, issuance of reports and analysis etc.) is included at the subsequent pages under relevant categories.

Last but not least, regarding Banking Supervision, this quarter the establishment of a new communication channel with ECB is noted. The ECB Banking Supervision Market Contact Group (BSMCG), where Grant Thornton Greece is proud to participate, serves as a senior-level forum to discuss issues relevant for banking supervision from a market perspective. The group, which had its first virtual meeting on July 7, 2021, discusses developments in the banking sector from a system-wide perspective, including structural and regulatory trends and the impact of ECB supervision. It thus gathers market intelligence and thereby contributes to the ECB's analysis of the banking sector while offering a dedicated channel for communication with market stakeholders in the banking sector.

HIGHLIGHTS

Anti-Money Laundering (AML)

Regarding AML aspects the most significant evolutions during the 3rd quarter include the following actions:

Regarding local environment, the Publication of Law 4816/2021 regarding AML through criminal law is noted.

European Commission:

- presented an ambitious package of legislative proposals to strengthen the EU's AML/CFT rules;
- proposed the amendment of Directive (EU) 2019/1153 (as regards access of competent authorities to centralized bank account registries through the single access point);

Furthermore, FATF published a report on Money Laundering from Environmental Crime while EBA consulted on new Guidelines on the role of AML/CFT compliance officers.

Capital markets

ECB extended the leverage ratio relief for banks, until March 2022. Also, ECB and US Securities and Exchange Commission signed MoU on security-based swap entities. Moreover, the Governing Council of the ECB published monetary policy decisions.

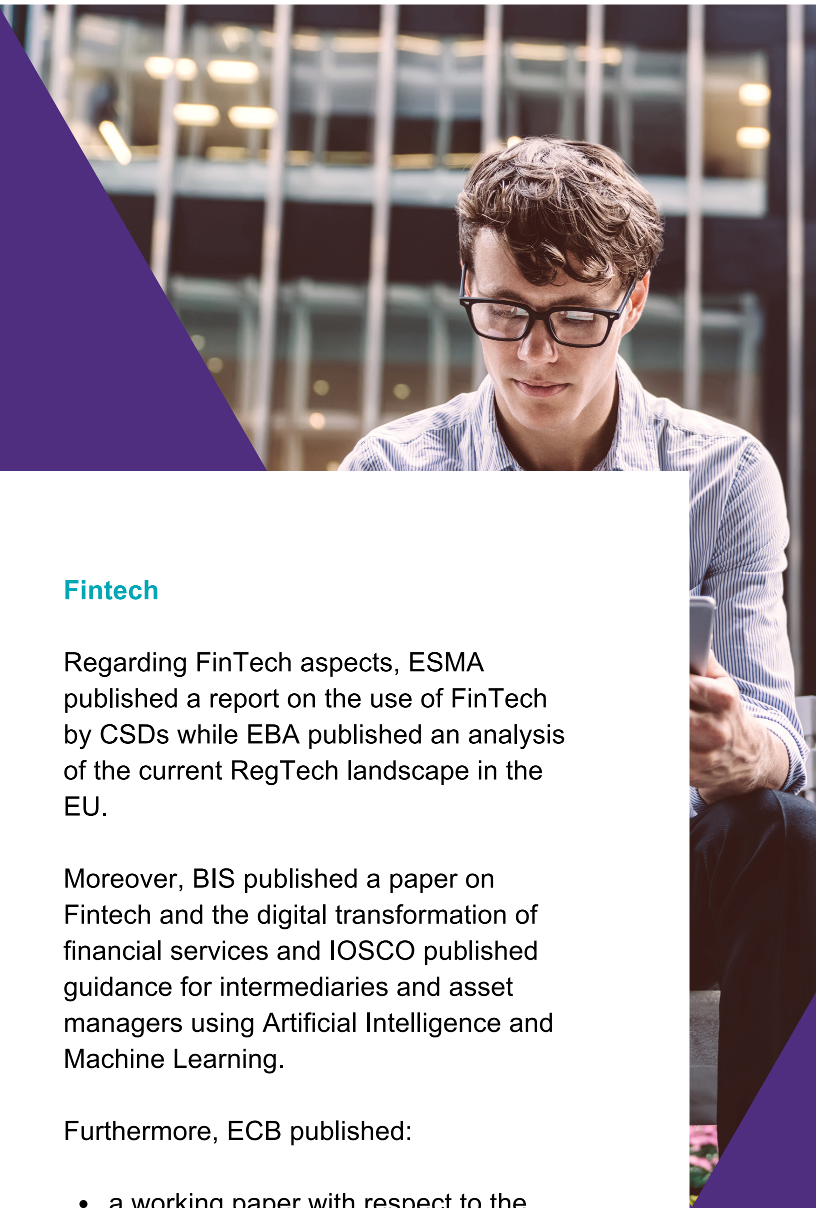
In addition, BCBS published two technical amendments to the standard on minimum haircut floors for SFTs.

Furthermore, EBA's study shows that EU banks' funding plans are poised to gradually return to a pre-pandemic funding composition by 2023.

Corporate Governance

EBA revised guidelines on sound remuneration policies to be applied from December 2021 to ensure that they are gender neutral and clarify certain aspects regarding retention of bonuses and severance pays.

Furthermore, it published its final guidelines on internal governance to be also effective from December 31, 2021 emphasizing various aspects in accordance with the amendments introduced by the Fifth Capital Requirements Directive and the Investments Firms Directives (i.e. gender diversity, money laundering, financing terrorist risk and management of conflict of interest including in the context of loans and other transactions members of the management body and their related parties).



HIGHLIGHTS

Environmental, Social and Governance (ESG)

Regarding ESG aspects the most significant evolutions during the 3rd quarter include the following actions, Issuance of 3 reports by FSB dealing with the following issues:

- Climate related disclosures
- Availability of data needed to monitor and assess climate-related risks
- Roadmap for addressing Climate related risks.

European Commission issuance of:

- new technical guidance on climate-proofing of infrastructure projects for the period 2021-2027,
- final study on the development of tools and mechanism for the integration of ESG factors into the EU banking prudential framework and into banks' business strategies and investment policies

Furthermore, and ahead of the forthcoming climate risk stress tests, BIS published an insights paper on Climate change risk stress tests with a comparison of practices while ECB published the results of its economy-wide climate stress tests.

Fintech

Regarding FinTech aspects, ESMA published a report on the use of FinTech by CSDs while EBA published an analysis of the current RegTech landscape in the EU.

Moreover, BIS published a paper on Fintech and the digital transformation of financial services and IOSCO published guidance for intermediaries and asset managers using Artificial Intelligence and Machine Learning.

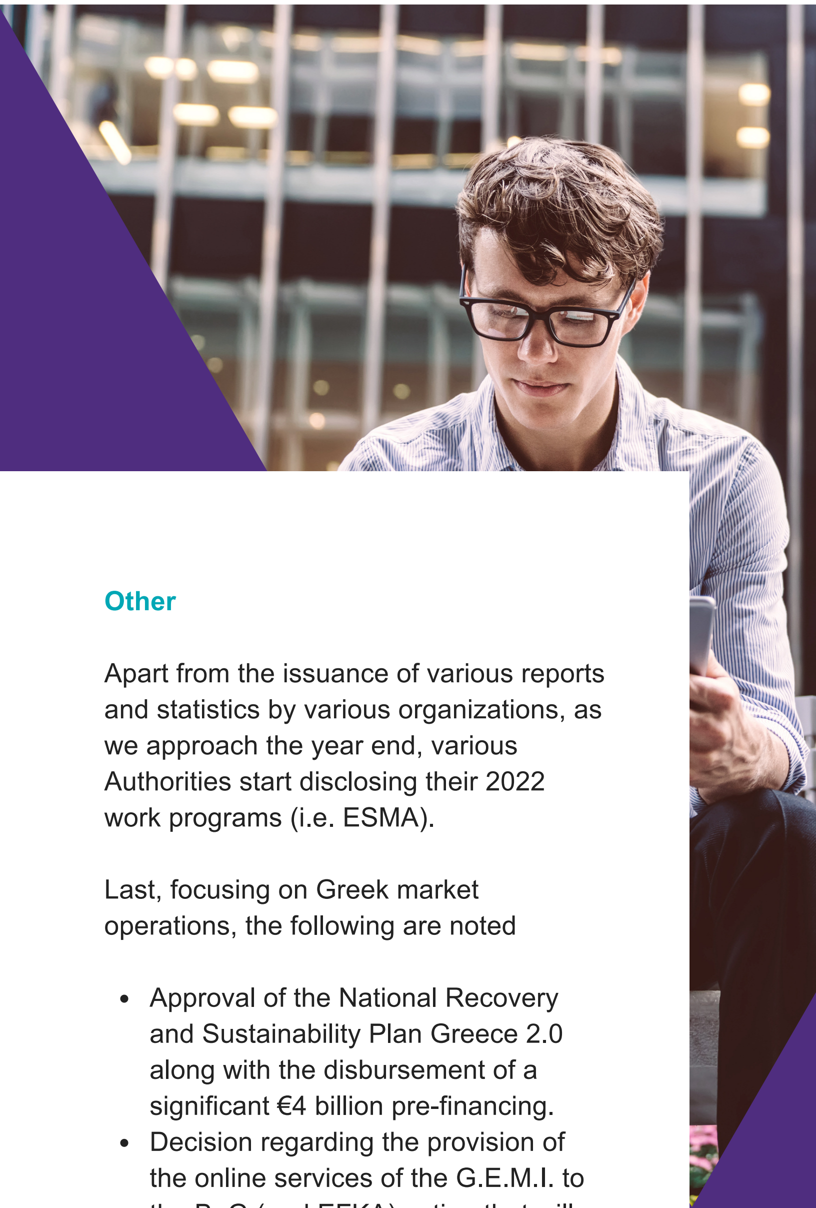
Furthermore, ECB published:

- a working paper with respect to the creation of a unified framework for the design of a CBDC;
- a paper regarding digitalization and its impacts and implications for monetary policy in the euro area.

MIFID II

Regarding MIFID II aspects, EBA and ESMA published final guidance on fit and proper requirements while EBA published final draft technical standards on supervisory disclosure under the Investment Firms Directive.

HIGHLIGHTS



Furthermore, ESMA:

- highlighted areas for improvement in compliance with MIFID II suitability requirements;
- published MIFID II/MIFIR review report on algorithmic trading.

Risk Management

Further to the announcement of the EU – wide Stress Test, EBA published final guidance regarding how to assess breaches of large exposure limits.

Monitoring of Basel III implementation progress was at the focus of both EBA and Basel Committee on Banking Supervision as they have both issued relevant reports using the same methodology.

Finally, as part of Authorities actions to monitor risks and vulnerabilities, the 2021 EU wide transparency exercise was launched by EBA late on September while ESMA had published its Trends, Risks and Vulnerabilities reports earlier on same month.

Other

Apart from the issuance of various reports and statistics by various organizations, as we approach the year end, various Authorities start disclosing their 2022 work programs (i.e. ESMA).

Last, focusing on Greek market operations, the following are noted

- Approval of the National Recovery and Sustainability Plan Greece 2.0 along with the disbursement of a significant €4 billion pre-financing.
- Decision regarding the provision of the online services of the G.E.M.I. to the BoG (and EFKA) action that will greatly assist areas monitoring and analysis capabilities.

Anti-Money Laundering (AML)

Law 4816/2021 was published regarding AML through criminal law.

FATF report: Money Laundering from Environmental Crime.

On June 28, 2021 the Financial Action Task Force (FATF) published a report setting out its findings from a year-long study into Money Laundering arising from Environmental Crime.

While environmental crimes cover a wide range of activities, the report focused specifically on forestry crimes, illegal mining, and waste trafficking.

As a priority, the FATF report finds that countries should:

1. Consider the money laundering threats posed by environmental crimes, even for countries that do not have domestic natural resources. These risks should be considered holistically alongside domestic vulnerabilities, such as propensity of corruption, or dialogue with stakeholders that may not be traditional AML entities (e.g. mining, logging companies and supply chain intermediaries).
2. Strengthen coordination between AML authorities and environmental crime experts, including ensuring that AML authorities have sufficient powers to investigate and trace assets from environmental crimes.

FATF: updated list of Jurisdictions under Increased Monitoring and High-Risk Jurisdictions for AML/CFT purposes.

On June 25, 2021 the Financial Action Task Force (FATF) published:

- an up-to-date list of Jurisdictions under Increased Monitoring for AML/CFT purposes.
- an up-to-date list of High-Risk Jurisdictions subject to a Call for Action for AML/CFT purposes.

FATF: opportunities and challenges of new technologies for AML/CFT.

On July 1, 2021 the Financial Action Task Force (FATF) published a report on the opportunities and challenges of new technologies for anti-money laundering/combating the financing of terrorism (AML/CFT), as new technologies can improve the speed, quality and efficiency of measures to combat money laundering and terrorist financing (ML/TF).

According to the paper, one of the biggest roadblocks to efficient AML/CFT implementation is a lack of awareness of ML/TF risks and attacks. Decision-making based on insufficient risk assessments might be incorrect and irrelevant, depending largely on human input and protective box-ticking approaches to risk instead of a fully risk-based approach. The failure to effectively detect, analyze, and mitigate money laundering and terrorist financing risk, including the basic aspects of risk identification, is a barrier to AML/CFT effectiveness. This is the area where new technology may bring the most value.

Publication of Law 4816/2021 regarding AML through criminal law.

On July 9, 2021 Law 4816/2021 was published in the Greek Government Gazette (A' 118) for the incorporation of the Directive 2018/1673 (AMLD VI) into the Greek Law.

Beating financial crime: Commission overhauls AML/CFT rules.

On July 20, 2021 the European Commission presented an ambitious package of legislative proposals to strengthen the EU's anti-money laundering and countering terrorism financing (AML/CFT) rules.

The aim of this package is to improve the detection of suspicious transactions and activities, and to close loopholes used by criminals to launder illicit proceeds or finance terrorist activities through the financial system.

The measures greatly enhance the existing EU framework by taking into account new and emerging challenges linked to technological innovation. These include virtual currencies, more integrated financial flows in the Single Market and the global nature of terrorist organizations. These proposals will help to create a much more consistent framework to ease compliance for operators subject to AML/CFT rules, especially for those active cross-border.

The package consists of four legislative proposals:

- A Regulation establishing a new EU AML/CFT Authority;
- A Regulation on AML/CFT, containing directly-applicable rules, including in the areas of Customer Due Diligence and Beneficial Ownership;
- A sixth Directive on AML/CFT ("AMLD6"), replacing the existing Directive 2015/849/EU (the fourth AML directive as amended by the fifth AML directive), containing provisions that will be transposed into national law, such as rules on national supervisors and Financial Intelligence Units in Member States;
- A revision of the 2015 Regulation on Transfers of Funds to trace transfers of crypto-assets (Regulation 2015/847/EU).

AML and CFT in banking – Executive Summary.

On July 29, 2021 the Bank for International Settlements (BIS) published an executive summary regarding AML and CFT in banking. Banks are particularly exposed to being abused for ML purposes.

The abuse of financial intermediation can have repercussions that go beyond the individual transaction, as it threatens the stability of involved institutions and potentially the system at large.

This demonstrates the need for preventative measures against ML, in addition to its prosecution as a crime.

International bodies and standard setters such as Financial Action Task Force (FATF), Basel Committee on Banking Supervision (BCBS) and other international bodies in the area of AML, set ML and TF prevention standards.

Banks' AML/CFT measures and related supervision should follow a risk-based approach. This entails a differentiation of risk classes and their separate management. Also, the principal responsibility for a bank's ML/TF risk management lies with the board of directors. It is responsible for defining and overseeing a bank's AML/CFT policy and allocating operational responsibilities and resources under the "three lines of defence" model. Moreover, the collection and verification of client information at account opening and the monitoring of client transactions is a particularly important aspect of banks' due diligence as it allows them to identify criminal activities and report those activities to the relevant authorities.

EC proposed the amendment of Directive (EU) 2019/1153.

On July 20, 2021 the European Commission (EC) adopted a Proposal for a Directive of the European Parliament and of the Council amending Directive (EU) 2019/1153, as regards access of competent authorities to centralized bank account registries through the single access point.

EBA consulted on new Guidelines on the role of AML/CFT compliance officers.

On August 2, 2021 the European Banking Authority (EBA) announced a three-month public consultation on a new set of guidelines for the role, tasks, and responsibilities of compliance officers responsible for anti-money laundering (AML) and countering the finance of terrorism (CFT).

The EBA's proposed guidelines include:

- Requiring companies to appoint a compliance officer at a managerial level with responsibility for AML policies.
- Instructing AML/CFT officers to develop and maintain a money laundering and terrorist financing risk assessment framework – both for business-wide and individual risks.
- Codifying a list of information that AML/CFT compliance officers should include inactivity reports to management.
- Empowering national regulators to request information that enables them to test the "adequacy and effectiveness of AML/CFT compliance officer function in line with these and other ESA [European Supervisory Authority] guidelines".

The consultation is open for comments until November 2, 2021.

Capital Markets

ECB extended the leverage ratio relief for banks, until March 2022.

The Governing Council amended Guideline ECB/2014/31 on additional temporary measures.

On June 2, 2021 the Governing Council amended Guideline ECB/2014/31 by adopting Guideline (EU) 2021/975 on additional temporary measures relating to Euro-system refinancing operations and eligibility of collateral (ECB/2021/26).

The amendment implements the Governing Council decision of 10 December 2020 regarding the duration of the collateral easing measures. It extends the explicit end date for provisions maintaining the eligibility of certain marketable assets and issuers eligible on 7 April 2020, from 29 September 2021 to 30 June 2022. Euro-system central banks shall comply with the Guideline from 30 September 2021.

ECB extended the leverage ratio relief for banks, until March 2022.

On June 18, 2021 ECB Banking Supervision announced that euro area banks it directly supervises may continue to exclude certain central bank exposures from the leverage ratio until March 2022. Such exposures include coins, banknotes, and deposits held at the central bank. ECB has decided to extend the temporary exclusion of these central bank exposures from the total exposure measure as exceptional macroeconomic circumstances due to the COVID-19 pandemic continue. This decision repeals the earlier Decision 2020/1306 on leverage ratio relief, with effect from June 28, 2021. ECB also updated the frequently asked questions (FAQs) on supervisory measures in response to the COVID-19 pandemic.

Technical amendments finalized for minimum haircut floors for securities financing transactions.

On July 1, 2021 the Basel Committee on Banking Supervision published two technical amendments to the standard on minimum haircut floors for securities financing transactions (SFTs).

The first technical amendment addresses an interpretative issue relating to collateral upgrade transactions and the second corrects for a misstatement of the formula used to calculate haircut floors for netting sets of STFs.

The amendments were published for consultation in January 2021 and have been finalized as originally proposed.
Technical amendments are defined as changes in standards that are not substantial in nature but that cannot be unambiguously resolved based on the current text.

EBA published final draft technical standards to improve supervisory cooperation for investment firms.

On July 5, 2021 EBA published the final draft regulatory and implementing technical standards on cooperation and information exchange between competent authorities involved in the prudential supervision of investment firms.

One final draft sets out the regulatory technical standards on supervisory colleges for investment firm groups, in accordance with the Investment Firms Directive (IFD).

The other final draft sets out the regulatory and implementing technical standards on information exchange between competent authorities of home and host member states in accordance with the IFD. These draft standards are part of the phase 2 mandates of the EBA roadmap on investment firms.

The regulatory standards on colleges of investment firms specify the conditions under which colleges of supervisors exercise their tasks and target the investment firm groups falling under the remit of the IFD.

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The regulatory standards on colleges of investment firms specify the conditions under which colleges of supervisors exercise their tasks and target the investment firm groups falling under the remit of the IFD.

These standards are built on experience gained over the years in the colleges of supervisors of credit institutions and larger and more complex investment firm groups that have been established in accordance with the Capital Requirements Directive (CRD).

Supervisory statement on supervisory practices and expectations in case of breach of the Solvency Capital Requirement.

The European Insurance and Occupational Pensions Authority (EIOPA) published on July 12, 2021 a statement on supervisory practices and expectations in case of breach of the Solvency Capital Requirement (SCR). In addition, EIOPA published an Opinion that addresses the use of Solvency II risk mitigation techniques by insurers and includes a set of recommendations addressed to the national competent authorities to ensure convergent supervision.

Also published was an article that considers the role of insurance in mitigating the impact of catastrophes and focuses on the interplay between climate change and insurance coverage. The article first develops a theoretical model of insurance, climate change, catastrophes, and the macroeconomy, using predictions from this model to empirically test and explore how insurance has mitigated the impact of catastrophes in the past; the results are then used to explore the potential impact of catastrophes using a range of climate-change scenarios.

Basel Committee consulted on an amendment to the process for reviewing the G-SIB methodology.

On July 20, 2021 the Basel Committee on Banking Supervision issued for consultation a proposal for a technical amendment to the Basel Framework. The amendment refers to a new process that will be implemented by the Committee to review the assessment methodology for global systemically important banks (G-SIBs).

More specifically, the Committee assesses the systemic importance of the annual use of an indicator-based methodology by global banks. The plan is to replace the existing three-year review cycle of the assessment methodology with a process of ongoing review and monitoring.

The proposed process will include monitoring:

- Monitoring new indicators or newfound developments in techniques used to assess systemic risk;
- Monitoring all new evidence regarding the effectiveness of G-SIBs;
- Monitoring structural changes that could affect the effectiveness of the G-SIB regime. Depending on the materiality of the findings of this monitoring work with respect to the framework's objectives, the Committee will consider amendments to the regime.

EBA published its final Guidelines on the monitoring of the threshold for establishing an intermediate EU parent undertaking.

On July 28, 2021 the European Banking Authority (EBA) published its final Guidelines with respect to the monitoring of the threshold and other procedural aspects on the establishment of intermediate EU parent undertakings (IPU) as laid down in the Capital Requirements Directive (CRD).

A requirement for institutions that are part of third-country groups to have an intermediate EU parent undertaking established in EU, in cases where the total value of assets in EU of the third-country group is equal to or greater than EUR 40 billion, was previously introduced by the CRD. In this context, the guidelines:

- Clarify the relevant data for the calculation of the total value of the assets in EU, considering the fluctuation in the value of assets.
- Specify that the total value of assets in of the third-EU country group should be calculated as an average over the last four quarters.
- Note that institutions belonging to third-country groups must apply a forward-looking approach, to meet the intermediate and assess at least annually whether the threshold is expected to be reached within the three-year horizon.
- Stipulate that, institutions and branches belonging to a third-country group should exchange among each other all necessary information.
- Specify certain procedural aspects related to the monitoring of the threshold by competent authorities and the establishment of the intermediate EU parent undertakings where necessary.

ECB and US Securities and Exchange Commission signed MoU on security-based swap entities.

On August 16, 2021 the European Central Bank (ECB) and the U.S. Securities and Exchange Commission (SEC) signed a memorandum of understanding (MoU) to prepare for the registration of ECB-supervised entities as security-based swap dealers or major security-based swap participants in the U.S. The cooperation will provide a basis for relevant euro area entities to minimize duplication of compliance efforts and to continue focusing on compliance with EU requirements, while ensuring compliance with U.S. requirements. The US regulation requires non-US security-based swap dealers and major security-based swap participants with significant business in the U.S. to register with the SEC by November 01, 2021 and December 01, 2021, respectively.

This memorandum is a statement of intent to consult, cooperate, and exchange information in connection with the supervision, enforcement, and oversight of covered firms and their covered activities in a manner that is permitted by, and consistent with, the laws and requirements that govern each authority.

The authorities anticipate that cooperation primarily will be achieved through ongoing consultations and exchanges of information related to covered firms with respect to their covered activities, supplemented by formal cooperation. Cooperation in accordance with this memorandum will become effective on the date this memorandum is signed by both authorities.

The Governing Council of the ECB published monetary policy decisions.

On September 9, 2021 the Governing Council of the ECB published monetary policy decisions. Based on a joint assessment of financing conditions and the inflation outlook, the Governing Council judges that favourable financing conditions can be maintained with a moderately lower pace of net asset purchases under the pandemic emergency purchase programme (PEPP) than in the previous two quarters.

The Governing Council also confirmed its other measures, namely the level of the key ECB interest rates, its forward guidance on their likely future evolution, its purchases under the asset purchase program (APP), its reinvestment policies and its longer-term refinancing operations.

EBA's study shows that EU banks' funding plans are poised to gradually return to a pre-pandemic funding composition by 2023.

On September 6, 2021 the European Banking Authority (EBA) published the annual update on the funding plans of banks in EU. The assessment in this report helps bank supervisors in EU to assess the sustainability of the main sources of funding at banks. The results of the assessment show the impact the pandemic had on the funding composition of banks and conclude that funding plans of banks in EU are poised to gradually return to a pre-pandemic funding composition by 2023; this implies a partial replacement of the central bank funding with market-based funding. The report is based on data submissions of 160 banks in accordance with the EBA guidelines on funding plans.

Corporate Governance

EBA revised Guidelines on sound remuneration policies.

EBA revised Guidelines on sound remuneration policies.

On July 2, 2021, the European Banking Authority (EBA) published revised Guidelines on sound remuneration policies. This update takes into account the amendments introduced by the Fifth Capital Requirements Directive in relation to institutions' sound remuneration policies and, in particular, the requirement that remuneration policies should be gender neutral. The revised Guidelines also consider supervisory practices and clarify some aspects of retention bonuses and severance pays. The revised Guidelines will apply from 31 December 2021.

EBA published its final Guidelines on internal governance.

On July 2, 2021 the European Banking Authority (EBA) published revised Guidelines on internal governance. The update takes into account the amendments introduced by the Fifth Capital Requirements Directive and the Investment Firms Directive in relation to credit institutions' sound and effective governance arrangements, in particular with regard to gender diversity, money laundering, financing terrorist risk and the management of conflicts of interest,

including in the context of loans and other transactions with members of the management body and their related parties. The final revised Guidelines will apply from 31 December 2021.

In particular, the revised guidelines:

- Further specify and reinforce the framework regarding loans to members of the management body and their related parties. Those loans may constitute a specific source of actual or potential conflict of interest. In the same way, other transactions with members of the management body and their related parties have the potential to create conflicts of interest and, therefore, the EBA is providing guidance on how to properly manage them.
- In line with the requirement to have a gender-neutral remuneration policy, the revised Guidelines provide new guidance on the code of conduct to ensure that credit institutions take all necessary measures to avoid any form of discrimination and guarantee equal opportunities to staff of all genders. In addition, institutions should monitor the gender pay-gap.

Environmental, Social and Governance (ESG)

ECB presented an action plan to include climate change considerations in its monetary policy strategy.

IOSCO issued a consultation report on recommendations for sustainability-related practices, policies, procedures and disclosure in asset management.

On June 30, 2021 the International Organization of Securities Commissions (IOSCO) issued a consultation report on recommendations for sustainability-related practices, policies, procedures and disclosure in asset management. The consultation report focuses on investor protection issues and proposes that securities regulators consider setting regulatory and supervisory expectations for asset managers regarding sustainability-related risks and opportunities.

The consultation report discusses the types, and provides examples, of greenwashing at the asset manager and product levels, describes the different regulatory approaches currently taken by IOSCO members to address sustainability-related practices by asset managers as well as disclosures at both the firm and product levels, and provides an overview of the current landscape of sustainability-related financial and investor education. The report also discusses challenges in this area and sets out recommendations for securities regulators and policymakers.

The deadline for comments is 15 August 2021.

ECB and ESRB published a joint report at how a broadened set of climate change drivers affects millions of global firms and thousands of financial firms in the EU.

On July 1, 2021 ECB and ESRB published a joint report at how a broadened set of climate change drivers affects millions of global firms and thousands of financial firms in the European Union (EU). The report maps out prospective financial stability risks and contributes by further developing the analytical basis for more targeted and effective policy action.

The report tackles measurement gaps and, building on previous work in this field, establishes a detailed topology of physical and transition risks arising from climate change across regions, sectors and firms. It also applies a scenario analysis with long-dated financial risk horizons to capture prospective financial losses resulting from the timeliness and effectiveness of climate policies and technologies.

The report's granular mapping of financial exposures to climate change drivers finds three forms of risk concentration. First, exposures to physical climate hazards are concentrated at the regional level. Second, exposures to emission-intensive firms are concentrated not only across but also within economic sectors. Third, exposures to climate risk drivers are concentrated in specific European financial intermediaries.

Long-term scenario analysis for EU banks, insurers and investment funds suggests that credit and market risk could increase as a result of a failure to effectively counteract global warming. As work continues on more accurately measuring and modelling climate risk, the advances described in this report should provide valuable evidence to inform the broadening climate debate in the public and private sector alike.

FSB released a 46-page report on promoting Climate-Related Disclosures.

On July 7, 2021 the Financial Stability Board (FSB) released a 46-page report on promoting Climate-Related Disclosures. The Climate Disclosure Report sets high-level guidance, in the form of recommendations, to support financial authorities in their development of climate-related disclosure frameworks, appropriate to their wider public policy objectives and regulatory and legal frameworks.

The report recommends that financial authorities:

- Use a framework based on the TCFD Recommendations across all sectors for climate-related financial disclosures, in line with jurisdictions' regulatory and legal requirements.
- Promote sharing of experiences, provide mutual support across jurisdictions on implementation of climate-related disclosure frameworks and accelerate international efforts to help build industry-wide awareness, technical knowledge and capabilities.
- Strongly coordinate in order to provide clear and consistent expectations, guidance or requirements to firms across all sectors on climate-related disclosures.
- Help to improve the reliability of climate-related disclosures [in the longer term] if they were to require, as appropriate, some form of third-party verification or assurance on such disclosures made by firms.

FSB released a 52-page report on the availability of data with which to monitor and assess Climate-Related Risks to Financial Stability.

On July 7, 2021, the Financial Stability Board (FSB) released a 52-page report on the availability of data with which to monitor and assess Climate-Related Risks to Financial Stability. The Climate Data Availability Report notes that "the specific nature of climate-related risks has a bearing on the data needed to monitor and assess their implications for financial stability."

This report states that the data should:

- Capture exposures of financial firms to climate-related risks, particularly those of a scale or concentration that might threaten financial stability.
- Support a global comparison and aggregation of financial firms' exposures to climate-related risks.
- Support forward-looking assessments of climate-related risks to financial stability.
- Capture climate-related risk transfer and mitigation.

The report outlines priority areas of work (some of which are already in progress) that should address important data gaps to improve the monitoring and assessment of climate-related risks to financial stability:

- Improving the availability and consistency of data on the underlying drivers of climate-related risks.
- Developing a baseline global sustainability reporting standard under robust governance and public oversight.
- Improving the quality and consistency of data on financial institutions' exposures to climate-related risks arising from their exposures to non-financial counterparties.
- Developing (including via engagement with private-sector providers of data) forward-looking metrics on climate-related risks, both at the level of individual firms and the financial system as a whole.
- Widening and harmonizing data on the degree to which individual financial institutions' exposures to climate-related risks are mitigated by insurance provision.
- Comparing authorities experiences of implementing scenario analysis as a means of assessing the resilience of the financial system to climate-related risks, and to identify relevant data gaps.
- The NGFS continuing to refine and develop scenarios, which financial authorities should make use of in their scenario analysis, as appropriate in order to align the data and methodologies used in such analysis.

FSB released its roadmap for addressing Climate-Related Financial Risks.

On July 7, 2021 the Financial Stability Board (FSB) released its roadmap for addressing Climate-Related Financial Risks. The Roadmap, which has been submitted to the G20 for endorsement, sets out a comprehensive and coordinated plan for addressing climate-related financial risks, including specifying regulatory actions and implementation timeframes. If endorsed by the G20, the Roadmap will facilitate adoption of the FSB regulatory proposal by member countries.

The Roadmap also outlines the work underway and still to be done by standard-setting bodies and other international organizations over a multi-year period in four key policy areas: disclosures, data, vulnerabilities analysis, and regulatory and supervisory approaches.

The Roadmap notes the ongoing work on climate issues by official sector bodies (including the FSB, NGFS, BCBS, CPMI, IAIS, IOSCO, OECD, IMF and World Bank) and a variety of private sector bodies. The issues have been added to recently by the IFRS Foundation proposal to establish an International Sustainability Standards Board (ISSB), which initially would focus on climate-related reporting. More generally, climate topics are being given an important place in both the G20 and G7 agendas for 2021, and preparations are underway for COP26.

ECB presented an action plan to include climate change considerations in its monetary policy strategy.

On July 8, 2021 ECB presented an action plan to include climate change considerations in its monetary policy strategy. The Governing Council of the European Central Bank (ECB) has decided on a comprehensive action plan, with an ambitious roadmap to further incorporate climate change considerations into its policy framework. With this decision, the Governing Council underlines its commitment to more systematically reflect environmental sustainability considerations in its monetary policy. The decision follows the conclusion of the strategy review of 2020-21, in which the reflections on climate change and environmental sustainability were of central importance.

EC adopted a number of measures to increase its level of ambition on sustainable finance.

On July 6, 2021 the European Commission (EC) adopted a number of measures to increase its level of ambition on sustainable finance. The new Sustainable Finance Strategy sets out several initiatives to tackle climate change, and other environmental challenges, while increasing investment – and the inclusiveness of small and medium-sized enterprises (SMEs) - in the EU's transition towards a sustainable economy. The European Green Bond Standard proposal will create a high-quality voluntary standard for bonds financing sustainable investment. Finally, the Commission adopted a Delegated Act on the information to be disclosed by financial and non-financial companies about how sustainable their activities are, based on Article 8 of the EU Taxonomy.

These initiatives highlight the EU's global leadership in setting international standards for sustainable finance. The Commission intends to work closely with all international partners, including through the International Platform on Sustainable Finance, to cooperate on building a robust international sustainable finance system.

BIS published an Insights paper on 'Stress-testing banks for climate change risk – a comparison of practices'.

On July 14, 2021 BIS published an Insights paper on 'Stress-testing banks for climate change risk – a comparison of practices'. With global and national authorities increasingly requiring the financial industry to assess and manage climate risks, relevant stress tests are increasingly being planned and launched as a tool to understand potential impacts. The paper examines the challenges that emerge in adapting traditional stress tests to climate risk, and examples from France, the Netherlands and the UK of how these have been addressed in practice, finding that some methodological adaptations are needed. The challenges are broad in scope, relating to data availability and reliability, adoption of very long-time horizons, uncertainty around future pathways of key reference variables covering physical risks, and uncertainty related to transition risks.

Reflecting on the possible implications for prudential requirements of addressing climate risk, the paper concludes that climate stress test exercises are likely to form the basis of other supervisory discussions and decision making in areas such as bank business models, internal governance and risk management. Of course, this gives a substantial importance to reporting and modelling methodologies, data quality, and a careful consideration of the inherent uncertainties.

EC published new technical guidance on climate-proofing of infrastructure projects for the period 2021-2027.

On July 19, 2021 the European Commission (EC) published new technical guidance on climate-proofing of infrastructure projects for the period 2021-2027. The guidance adopted will help the EU deliver the European Green Deal, implement requirements under the European Climate Law and make EU spending greener. It is aligned with a greenhouse gas emission reduction pathway of -55% net emissions by 2030 and climate neutrality by 2050; follows the ‘energy efficiency first’ and ‘do no significant harm’ principles; and fulfils requirements set out in the legislation for several EU funds such as InvestEU, Connecting Europe Facility (CEF), European Regional Development Fund (ERDF), Cohesion Fund (CF) and the Just Transition Fund (JTF).

Climate-proofing is a process that integrates climate change mitigation and adaptation measures into the development of infrastructure projects. The technical guidance sets out common principles and practices for the identification, classification and management of physical climate risks when planning, developing, executing and monitoring infrastructure projects and programs.

The process is divided into two pillars (mitigation, adaptation) and two phases (screening, detailed analysis) and the documentation and verification of climate-proofing forms is considered an essential part of the rationale for making investment decisions.

IOSCO issued Consultation Report on ESG Ratings and Data Products Providers.

On July 26, 2021 the International Organization of Securities Commissions (IOSCO) issued its Consultation Report on Environmental, Social and Governance (ESG) Ratings and Data Products Providers to seek feedback on a set of proposed recommendations. The consultation report has five chapters:

- Chapter 1 provides an overview of the market for ESG ratings and data products.
- Chapter 2 discusses the current practices of ESG ratings and data products providers.
- Chapter 3 discusses certain observations in relation to users of ESG ratings and ESG data products.
- Chapter 4 elaborates on the interactions between companies that are the subject of ESG ratings or data products and ESG ratings and data products providers.
- Chapter 5 discusses areas for improvement highlighted in a recent fact-finding exercise and sets out proposed recommendations for securities markets regulators, ESG ratings and data products providers, users of these products and services, and companies subject to these providers’ review.

The consultation report is an additional piece in the framework for sustainability that IOSCO is developing in close coordination with its members and other international organizations. The report on sustainability-related issuer disclosures, published in June, addresses data gaps at the corporate level. The report on recommendations on sustainability related practices, policies, procedures and disclosure in asset management, also issued in June, focusses on the activities of asset managers as an important agency-model business that channels investor capital into sustainable finance. It underscores the importance of ESG ratings and data products in the decisions made by these asset managers.

EC published its final study on the development of tools and mechanism for the integration of ESG factors into the EU banking prudential framework and into banks’ business strategies and investment policies.

On August 27, 2021 the European Commission (EC) published its final study on the development of tools and mechanism for the integration of ESG factors into the EU banking prudential framework and into banks’ business strategies and investment policies. The report shows that ESG integration is at an early stage and more works needs to be undertaken in order to accelerate the process. These actions could include enhancements are particularly required on ESG definitions, measurement methodologies, and associated quantitative indicators.

Opinion of the ECB on a proposal regarding corporate sustainability reporting.

On September 7, 2021 the European Central Bank (ECB) released an opinion regarding the 29 June 2021 request from the European Parliament, on a proposal for a directive amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting.

ECB published the results of its economy-wide climate stress test.

On September 22, 2021 the European Central Bank (ECB) published the results of its economy-wide climate stress test, which aimed to assess the resilience of non-financial corporates and euro area banks to climate risks.

The results show that firms and banks benefit from adopting green policies early on, to foster the transition to a zero-carbon economy. The short-term costs of the transition pale in comparison to the costs of unfettered climate change in the medium to long term. The early adoption of policies to drive the transition to a zero-carbon economy also brings benefits in terms of investing in and rolling out more efficient technologies. The results and methodology of this exercise are expected to inform the 2022 climate stress test for banks under the ECB supervision.

Commission launches EU missions to tackle major challenges.

On September 29, 2021 the Commission launched five new EU missions, a new and innovative way to work together and improve the lives of people in Europe and beyond. EU missions aim to tackle big challenges in health, climate and the environment, and to achieve ambitious and inspiring goals in these areas.

Five missions will aim to deliver solutions to key global challenges by 2030:

1. Adaptation to Climate Change: support at least 150 European regions and communities to become climate resilient by 2030;
2. Cancer: working with Europe's Beating Cancer Plan to improve the lives of more than 3 million people by 2030 through prevention, cure and solutions to live longer and better;
3. Restore our Ocean and Waters by 2030;
4. 100 Climate-Neutral and Smart Cities by 2030;
5. A Soil Deal for Europe: 100 living labs and lighthouses to lead the transition towards healthy soils by 2030.

FinTech

ESMA published a report on the use of FinTech by CSDs.

The European Commission (EC) launched a consultation and discussion forum to gather feedback on the acceleration of Europe's digital transformation.

Due to the COVID-19 pandemic, digitalization has become a fundamental part of the economy and society in general. Fast paced digital technologies have become necessary for citizens in order to be able to work, get educated or even socialize. That is why the European Union must make sure that the digital transformation will be based on technological excellence, digital leadership and ultimately benefit all European citizens.

With this consultation and discussion forum launched in 22 June 2021, the EC seeks feedback from different "digital" stakeholders (e.g. citizens, businesses, public authorities) on the following key elements of the Digital Compass Communication:

- Overall need and vision for accelerating EU's digital transformation;
- Approaches and ideas to effectively reach the 2030 digital targets;
- The design of the digital governance framework;
- Mechanisms to enhance the development of Multi-Country Projects.

The EC will use the feedback to design a policy programme and pave the ground for an effective achievement of the Digital Decade objectives.

EBA assesses benefits, challenges and risks of RegTech use in the EU and puts forward steps to be taken to support sound adoption and scale-up of RegTech solutions.

On June 29, 2021 the European Banking Authority (EBA) published an analysis of the current RegTech landscape in the EU. The analysis provides a mapping and understanding of the existing Regtech solutions and examines the adoption status of such solutions.

The report looks at the application of technology-enabled innovation for regulatory, compliance, and reporting requirements and provides a deep-dive analysis into the most frequently used Regtech segments. With 57% of all solutions not being in the production stage, the report notes that prudential reporting is the least mature of the major RegTech segments.

Additionally, the report points out that financial institutions' development of creditworthiness assessment Regtech solutions remains at an early stage and most institutions consider developing these solutions in-house. According to financial institutions and Regtech providers, technologies used to support creditworthiness assessment are artificial intelligence, Application Programming Interfaces (APIs), and cloud computing.

Overall, financial institutions highlight enhanced risk management, better monitoring and sampling capabilities, and reduced human errors as the main benefits of use of Regtech solutions. Regtech providers emphasize the ability to increase efficiency and improve effectiveness. Evidence suggests that the majority of challenges to Regtech market development are internal factors within financial institutions and Regtech providers (e.g. lack of application programming interface (API) capabilities, costly and lengthy due diligence processes).

EPC published clarification text on SEPA Credit Transfer and SEPA Credit Transfer instant payment systems.

On July 6, 2021 European Payments Council (‘EPC’) published clarification text on SEPA Credit Transfer and SEPA Credit Transfer instant payment systems. This document addresses operational issues arising from the implementation of the SEPA Credit Transfer (SCT) scheme rulebook and the SEPA Instant Credit Transfer (SCT Inst) scheme rulebook.

This document applies in first instance to the 2019 SCT and SCT Inst scheme rulebooks. Some sections provide also clarifications about the 2021 and 2023 SCT and SCT Inst scheme rulebooks.

This version now includes a clarification to the new rules for SCT (Inst) Recalls as of the implementation date of the 2021 SCT and SCT Inst rulebooks (section 2.8), extra information about using the Remittance Information attribute for a transfer back of funds to the Originator (section 2.11), and a new section on the SCT and SCT Inst r-transaction reason codes (section 2.13). As for the SCT scheme rulebook, the section 3.2 on clarifications about the SCT inquiry process has been reviewed and updated with upcoming changes as of the 2021 SCT scheme rulebook. There is a new section 3.5 covering the implementation of the dataset DS-11 ‘Inter-PSP Fee and/or Compensation Payment Dataset’.

Fintech and the digital transformation of financial services: implications for market structure and public policy.

On July 13, 2021 the Bank of International Settlements (BIS) published a paper on Fintech and the digital transformation of financial services.

The paper states that economies of scope and scale as well as information asymmetries shape market structure and give rise to financial intermediaries. In addition, digital innovation has been accompanied by major improvements in computing power and cost, in system connectivity and the creation of new usable data. Such improvements led to a decrease in transaction cost and gave rise to new business models. However, despite all these improvements due to digital innovation, classic economic forces still remain relevant.

The network effects as well as the effects of economies of scope and scale are still present in customer acquisition, compliance activities, funding and other aspects of financial services production. Moreover, despite the technological advancements, assembly and consumer search costs remain significant. Such forces offer advantages to big technological firms expanding from other markets to financial services and encourage re-bundling.

The paper also describes how the digital transformation of financial services led to certain policy issues regarding marker composition, concentration and competition that must be tackled. Authorities must coordinate across financial regulation, competition, and industry regulatory bodies to manage trade-offs between competition and efficiency, consumer protection and privacy as well as stability and integrity.

Eurosystem launches digital euro project.

On July 14, 2021 the Governing Council of the European Central Bank (ECB) issued a press release regarding the launch of an investigation phase of a digital euro project.

During the investigation phase of this project, the Eurosystem will focus on a possible functional design that is built on user needs; this will include prototyping, focus groups and conceptual work. The investigation phase will examine if a digital euro can become a riskless, accessible, and efficient form of digital central bank money.

The investigation phase will benefit from the experimentation work done by ECB and the euro area national central banks over the past nine months, which included participants from the private sector and academia. Experiments were conducted in four areas namely:

1. the digital euro ledger,
2. privacy and anti-money laundering,
3. limits on digital euro in circulation,
4. and end-user access while not connected to the internet and facilitating inclusiveness with appropriate devices.

No major technical obstacles were identified to any of the assessed design options. Finally, the experiments showed that a digital euro core infrastructure would be environmentally friendly because the power used to run tens of thousands of transactions per second is negligible compared to the energy consumption of crypto-assets.

A unified framework for CBDC design: remuneration, collateral haircuts and quantity constraints.

On July 30, 2021 the ECB published a working paper with respect to the creation of a unified framework for the design of a central bank digital currency (CBDC).

Central banks have started their own work programmes to assess the prospects of issuing CBDC for retail transactions due to the emergence of crypto-assets and big tech companies' reflections on issuing private currencies. However, the issuance of a CBDC, entails important implications for monetary policy implementation, transmission and financial stability, which depend on the specific design features of CBDC (e.g. remuneration and holding limits).

The paper studies these questions by constructing a general equilibrium model with search and matching frictions, which require entrepreneurs to borrow inside money (bank deposits) and outside money (CBDC). The model reflects a setup where CBDC exists in equilibrium, as postulated by the production function, while it allows for the impact analysis of the different CBDC design parameters on credit allocation and welfare within a unified framework.

The findings show that If the degree of substitution between inside money and outside money is relatively high, stricter collateral requirements for CBDC and a higher interest rate spread on CBDC increase bank lending. If substitution is low, bank lending falls together with CBDC demand.

ESMA published a report on the use of FinTech by CSDs.

On August 6, 2021 the European Securities and Markets Authority (ESMA) published a report on the use of FinTech by central securities depositories (CSDs). ESMA has gathered the views of Member State competent authorities (NCAs) and relevant market players on the existing experience with the use of FinTech and in particular distributed ledger technology (DLT), their plans to use this type of technology in the coming future and whether the current regulatory framework represents a barrier for them to implement their projects involving DLT. In the report ESMA concludes that the Central Securities Depositories Regulation (CSDR) is intended to be technology-neutral and, as such, should be able to accommodate the use of new technologies. Some aspects would benefit from additional clarifications and ESMA considers that most of these could be dealt with through Q&As.

ESMA has also put forward some recommendations to the European Commission mainly in respect of:

- Issues related to securities accounts, credits, debits, segregation requirements and reconciliation requirements.
- Operational requirements.
- Settlement of securities and of cash in a DLT environment.
- Settlement finalty.

The Commission is expected to prepare a legislative proposal by the end of 2021.

IOSCO published guidance for intermediaries and asset managers using Artificial Intelligence and Machine Learning.

On September 7, 2021 the International Organization of Securities Commissions (IOSCO) published guidance to help its members regulate and supervise the use of Artificial Intelligence (AI) and Machine Learning (ML) by market intermediaries and asset managers, following its consultation report published in June.

The guidance consists of six measures that reflect expected standards of conduct by market intermediaries and asset managers using AI and ML. Although the guidance is not binding, IOSCO members are encouraged to consider these measures carefully in the context of their legal and regulatory frameworks. IOSCO members and firms should also consider the proportionality of any response when implementing these measures.

Digitalisation: channels, impacts and implications for monetary policy in the euro area.

On September 21, 2021 the European Central Bank (ECB) published a paper regarding digitalisation. The digitalisation workstream report analyses the degree of digital adoption across the euro area and EU countries and the implications of digitalisation for measurement, productivity, labour markets and inflation, as well as more recent developments during the coronavirus (COVID-19) pandemic and their implications. Analysis of these key issues and variables is aimed at improving our understanding of the implications of digitalisation for monetary policy and its transmission.

Central bank digital currencies - executive summary.

On September 30, 2021 a group of central banks, together with the Bank for International Settlements (BIS), issued an executive summary which summarises progress made since publishing a report in October 2020 setting out the common foundational principles and core features of a central bank digital currency (CBDC).

The main points of the executive summary are:

- To be effective, a CBDC system would need to involve both public and private actors to ensure interoperability and coexistence with the broader payment system;
- Involving both public and private actors would also help a CBDC to anticipate the needs of future users and incorporate related innovations;
- To help maintain safety and stability, a CBDC would need careful design and implementation, allowing time for the existing financial system to adjust and flexibility to use safeguards.

MIFID II

EBA and ESMA published final guidance on fit and proper requirements.

EBA published final draft technical standards on supervisory disclosure under the Investment Firms Directive.

On June 25, 2021, the European Banking Authority (EBA) issued its final draft Implementing Technical Standards (ITS) on information on supervisory approaches and aggregate statistical data concerning the new prudential requirements that Member State competent authorities will have to disclose publicly for all types of EU investment firms authorised under MiFID II.

The EBA has developed the draft ITS in accordance with Article 57(4) of the Investment Firm Directive (IFD) which mandates the EBA is determine the format, structure, content lists and annual publication date of the information listed in paragraph 1 of Article 57 of that Directive. Specifically, the draft ITS determine the format, structure, contents list and annual publication date of the information on:

- Text of laws, regulations, administrative rules, and general guidance adopted in each member state.
- Options and discretions in the application of the prudential requirements.
- Criteria and methodologies of the Supervisory Review and Evaluation Process (SREP).
- Aggregated statistical data on prudential requirements.

Competent authorities will have to start disclosing this information in June 2022.

EBA and ESMA published final guidance on fit and proper requirements.

On July 2, 2021, the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA) published revised final joint Guidelines on the assessment of the suitability of members of the management body and key function holders. These revised final Guidelines take into account the amendments introduced by the Fifth Capital Requirements Directive and the Investment Firms Directive, and their effect on the assessment of the suitability of members of the management body, in particular with regard to money laundering and financing terrorism risks, and gender diversity. The revised final Guidelines will apply from 31 December 2021.

ESMA consulted on the review of transparency requirements under MiFIR.

On 9 July 2021, the European Securities and Markets Authority (ESMA) issued a consultation paper setting out proposals to amend Commission Delegated Regulation 2017/587 (RTS 1) and Commission Delegated Regulation 2017/583 (RTS 2).

RTS 1 and RTS 2 specify the MiFIR pre- and post-trade transparency requirements for equity instruments and non-equity instruments. The consultation paper follows ESMA's work in reviewing the MiFID II/MiFIR provisions, in particular on equity and non-equity transparency as well as on the functioning of the consolidated tape provider for equity instruments.

The review includes:

- providing more clarity on non-price forming transactions and the reporting of such transactions which will help obtain a better picture of the actual split between lit and over-the-counter (OTC) trading;
- a recalibration of the regime for commodity derivatives ensuring better tailored transparency requirements for this class of derivatives);

- providing further clarity on the reporting fields for post-trade transparency and the reporting of reference data with the overall objective of improving the quality of post-trade transparency data;
- providing clarification on the pre-trade transparency requirements for new types of trading systems, i.e. frequent batch auctions and hybrid systems; and
- increasing the pre- and post-trade large in scale thresholds for the trading of Exchange Traded Funds (ETFs) to achieve a more meaningful level of transparency in the ETF market.

The deadline for comments on the consultation paper is October 1, 2021.

ESMA consulted on remuneration requirements under MiFID II.

On July 19, 2021 the European Securities and Markets Authority (ESMA) issued a consultation paper on draft guidelines on certain aspects of the MiFID II remuneration requirements.

The purpose of these draft guidelines is to enhance clarity and foster convergence in the implementation of certain aspects of the new MiFID II remuneration requirements, replacing the existing ESMA guidelines on the same topic, issued in 2013. The consultation paper builds on the text of the 2013 guidelines, which have been substantially confirmed (albeit clarified and refined where necessary). In addition, it takes into account new requirements under MiFID II and the results of supervisory activities conducted by Member State national competent authorities on the topic.
ESMA will consider the responses it receives to the consultation paper by 19 October 2021 and expects to publish a final report, and final guidelines, by end of Q1 2022.

ESMA highlighted areas for improvement in compliance with MiFID II suitability requirements.

On July 21, 2021 the European Securities and Markets Authority (ESMA) published the results of the 2020 Common Supervisory Action (CSA) on MiFID II suitability requirements. The CSA was launched in February 2020 and consisted of coordinated supervisory activities across NCAs to assess the application of MiFID II suitability rules.

The results highlight that firms overall comply with many of the suitability requirements that were already regulated under MiFID I. However, improvement is required in respect of some of the requirements introduced by MiFID II. Particular improvement is required in respect of the requirement to consider the cost and complexity of equivalent products, the costs and benefits of switching investments and suitability reports. Going forward, ESMA will update its guidelines on suitability in 2021/2022 and competent authorities will take follow-up actions on an individual basis where necessary.

ESMA consulted on suitability assessments of DRSP management body members.

On August 24, 2021 the European Securities and Markets Authority (ESMA) published a Consultation Paper on draft Regulatory Technical Standards (RTS) under the Markets in Financial Instruments Regulation (MiFIR) regarding suitability assessments of DRSP management body members.

ESMA proposes to introduce requirements covering the following areas:

- Good repute, honesty and integrity;
- Sufficient time commitment;
- Knowledge, skills and experience;
- Independence;
- Induction and training;
- Diversity; and
- Record-keeping.

ESMA invited all stakeholders to respond to this consultation by September 24, 2021. ESMA will finalize and submit its draft RTS to the European Commission by Q1/ 2022.

ESMA consults on proposals for a review of the MiFID II best execution reporting regime.

On September 24, 2021 the European Securities and Markets Authority (ESMA), launched a consultation on proposals for improvements to the MiFID II framework on best execution reports. These proposals aim at ensuring effective and consistent regulation and supervision and enhancing investor protection. ESMA's proposals include technical changes to:

- the reporting obligations for execution venues;
- the reporting requirements for firms: focusing mainly on clarifying the requirements for firms that transmit client orders or decisions to deal to third parties for execution.

Stakeholders are invited to provide their responses by 23 December 2021.

ESMA published MiFID II/MiFIR review report on algorithmic trading.

On September 28, 2021 the European Securities and Markets Authority (ESMA) published its final MiFID II/MiFIR review report on algorithmic trading. The report covers a comprehensive range of topics, including high frequency trading (HFT) and high intraday message rates, Direct Electronic Access (DEA), third-country firms, organizational requirements for investment firms and for trading venues, as well as tick sizes, market making, asymmetric speedbumps and trade feeds. While the overall conclusion of the report is that the regulatory framework for algorithmic trading as set out by MiFID II and MiFIR has delivered its objectives, ESMA makes some recommendations for targeted amendments to the regime. Some of these should be of particular interest to those market participants engaging in algo/HFT on European trading venues but who themselves are located outside the EU – including in the UK.

Risk Management

EBA published the results of its 2021 EU-wide stress test.

Ratings & Credit Risk

EBA launched consultation to amend technical standards on credit risk adjustments.

On June 24, 2021, the European Banking Authority (EBA) issued a consultation regarding amendments to the Regulatory Technical Standards (RTS) on credit risk adjustments in the context of the calculation of the risk weight (RW) of defaulted exposures under the Standardised Approach (SA). The proposed amendments follow up on the European Commission's Action Plan to tackle non-performing loans in the aftermath of the COVID-19 pandemic, which indicated the need for a revision of the treatment of defaulted exposures under the SA. The update is designed to ensure that the EU prudential framework does not create disincentives to the sale of non-performing assets. The consultation ran until September 24, 2021.

Article 110(4)(e) of the Capital Requirements Regulation (CRR) mandates the EBA to specify the amounts that need to be included in the calculation of credit risk adjustments for the determination of default under Article 178 of the CRR. In light of the COVID-19 pandemic, the Commission wants to remove any impediment to the creation of secondary markets for defaulted exposures. In this context, a misalignment between the RW applied to defaulted assets and the potential for unexpected losses in relation to the level of already expected losses could create undue obstacles for credit institutions to move their non-performing loans off their balance sheets. Therefore, the amendments to the RTS are designed to ensure that the specific credit risk adjustments recognised for Article 127(1) of the CRR incorporate any discount in a transaction price that the buyer has not recognised by increasing common equity tier 1 capital.

EBA launched a consultation on its Guidelines on common procedures and methodologies for the supervisory review and evaluation process.

On June 28, 2021 the European Banking Authority (EBA) launched a consultation on its revised Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP) and supervisory stress testing.

This ongoing review of the SREP guidelines affects all main SREP elements, including business model analysis, assessment of internal governance and institution-wide control arrangements, assessment of risks to capital and capital adequacy to cover these risks, and assessment of liquidity and funding risks. The main amendments include the following:

- Re-examining institutions' categorization and application of the minimum engagement model to reflect the new definitions on small as well as large institutions
- Incorporating an assessment of money laundering and terrorist financing (ML/TF) risks
- Reviewing the provisions on Pillar 2 capital add-ons and the Pillar 2 guidance in line with Articles 104a and 104b of CRD4
- Providing clarifications on the assessment of the risk of excessive leverage and the related Pillar 2 capital add-ons and the Pillar 2 guidance
- Modifying the requirements for the assessment of the interest rate risk in the non-trading book as well as examining liquidity risk and liquidity adequacy to align them with the current regulatory framework.

EBA confirms quality of unsolicited credit assessments.

On July 1, 2021 the European Banking Authority (EBA) published today a revised Decision confirming the quality of unsolicited credit assessments assigned by certain External Credit Assessment Institutions (ECAIs) for calculating institutions' capital requirements. Since EBA's Decision published in July 2017, two additional ECAIs have been recognized and three ECAIs have been de-registered whereas a registered ECAI has been renamed.

The revised Decision is part of the Single Rulebook in banking and will promote regulatory harmonization across EU concerning the use of unsolicited credit ratings for determining institutions' own funds requirements. EBA Decision has been formed on the basis of Article 138 of the Capital Requirements Regulation (CRR), which states that institutions may use unsolicited credit assessments of an ECAI for the determination of capital requirements only if EBA has confirmed that those unsolicited ratings do not differ from solicited ratings of that ECAI in terms of quality.

EBA published final Guidelines for the use of data inputs in the expected shortfall risk measure under the Internal Model Approach.

On July 13, 2021 the European Banking Authority (EBA) published final guidelines that clarify the requirements that the data inputs used to determine the scenarios of future shocks applied to modellable risk factors should meet. The guidelines, which have been developed in accordance with Article 325bh (3) of the Capital Requirements Regulation (CRR), become applicable from 1 January 2022.

Article 325bh (3) of the CRR mandates the EBA to develop guidelines specifying the criteria for the use of data inputs referred to in Article 325bc of the CRR (i.e. the data inputs used to determine the scenarios of future shocks applied to the modellable risk factors) in calculating the partial expected shortfall measures in accordance with the same article. The guidelines should clarify the requirements that these data inputs should meet to be used for determining the scenario of future shocks in the institutions' expected shortfall risk measure.

The guidelines set out criteria for the accuracy, appropriateness, frequency for updating and completeness of the data inputs used by institutions. The data inputs used in the expected shortfall model, in order to be accurate, should be calibrated to historical data reflective of prices observed or quoted in the market. In order to be appropriate, the data inputs should capture, where relevant, both general and specific risks. Those data inputs should also be updated as often as possible, to account for changing market conditions. Finally, those data inputs should prove to be complete, and, in this respect, various aspects are considered, such as the replacement of missing or inconsistent values.

EBA published final guidance to assess breaches of the large exposure limit.

On September 15, 2021 the European Banking Authority (EBA), published its final Guidelines on assessing cases where institutions exceed the large exposure limits as well as the measures to return those institutions to compliance.

The guidelines are separated in four sections:

- criteria to determine the exceptional cases referred to in Article 396(1) of the CRR;
- information to be provided to the competent authority in case of a breach of the Large Exposure limits;
- criteria to determine the appropriate time to return to compliance with the limits of Article 395(1) of the CRR; and
- measures to be taken to ensure the timely return to compliance of the institution with the limits of Article 395(1) of the CRR.

The development of the guidelines was performed to provide guidance to competent authorities in their assessment of the breaches of the large exposure limits set out in Article 395(1) of the CRR, to ensure a smooth and effective application of Article 396(3) of the CRR and a level playing field among institutions in the Union.

These guidelines offer guidance from a going-concern perspective. Gone-concern situations (e.g. institution restructuring) are consequently outside the scope of these guidelines. In such situations, the measures needed go beyond restoring compliance with the large exposures framework of the CRR.

Covid-19

Early lessons from the Covid-19 pandemic on the Basel reforms.

On July 6, 2021 the Basel Committee on Banking Supervision (BCBS) published an interim evaluation report assessing the impact of the implemented Basel reforms in light of the Covid-19 pandemic.

The report finds that higher levels of liquidity and capital held by banks played a major role in absorbing the impact of the pandemic. Despite the global economic effects of the pandemic the banking system continued to offer its services and provide credit. The report also indicates that certain features of the Basel reforms (e.g. degree of countercyclicality) should be considered further but there is no need for a general revision of the reforms.

Recovery/Resolutions

EBA published amended technical standards on resolution planning reporting.

On August 3, 2021 the European Banking Authority (EBA) issued a report containing draft implementing technical standards (ITS) that amend the current ITS on the provision of information for the purpose of resolution plans (Implementing Regulation (EU) 2018/1624). The EBA states that the proposed amendments are minimal and are designed to re-align the standards with the provisions of the revised Bank Recovery and Resolution Directive which made changes to, among other things, the minimum requirement for own funds and eligible liabilities. The draft ITS also remove some identified obstacles, at the technical level, that hamper compliance with the requirements specified in the current ITS. The technical standards are expected to be applied during the course of this year and, for the first time, for reports as of 31 December 2021.

Risk-Weighted Assets

EBA consults on technical standards on risk retention requirements under the Securitisation Regulation.

On June 30, 2021 the European Banking Authority launched a consultation regarding the draft regulatory standards on the retention of a material net economic interest in securitization. These standards specify in greater detail the risk retention requirements and, in particular:

- Requirements on the modalities of retaining risk
- Measurement of the level of retention
- Prohibition of hedging or selling the retained interest
- Conditions for retention on a consolidated basis
- Conditions for exempting transactions based on a clear, transparent, and accessible index
- Modalities of retaining risk in case of traditional securitizations of nonperforming exposures
- Impact of fees paid to the retainer on the effective material net economic interest

EBA published its regular monitoring report on Basel III full implementation in the EU.

On September 29, 2021 the European Banking Authority (EBA) published its regular monitoring report on the full implementation of the final Basel III reforms in the European Union (EU) in 2028. The assessment carried out implements the same methodology used by the Basel Committee on Banking Supervision (BCBS).

The overall results of the capital monitoring exercise highlight a 13.7% increase to the minimum Tier 1 capital requirement of EU banks at the full implementation date (2028) without accounting for specific adjustments. Moreover, the percentage of impact of the reforms is at 18% of which output floor and credit risk are the leading factors with 7.1% and 5.1% respectively. Considering the minimum Tier 1 capital required of large international banks, it is expected to increase by 14.4%. Finally, Tier 1 requirements for global systemically important institutions (G-SIIs) and Group 2 banks would increase by 22.7% and 8.1% respectively.

Surveys and Statistics

EBA data shows a deterioration in asset quality of the most affected sectors.

On June 30, 2021 the European Banking Authority (EBA) published its quarterly Risk Dashboard together with the results of the spring edition of the Risk Assessment Questionnaire (RAQ). The most important findings are presented below:

- The CET1 ratio increased slightly in Q1 2021 as it reached 15.6% on a fully loaded basis. The leverage ratio declined from 5.8% in Q4 2020 to 5.6% in Q1 2021.
- The NPL ratio declined despite a slight rise in NPL volumes as it reached 2.5%, down by 10bps compared to the previous quarter.
- Looking forward, the RAQ results show that more than 70% of the banks expect the asset quality of SME loans to deteriorate. However, asset quality slightly improved for the first time since spring 2019.
- Loans under EBA eligible moratoria reached around EUR 203bn (down from around EUR 318bn in Q4 2020).
- Profitability improved strongly as Return on Equity (RoE) rose to 7.6% in Q1 2021 from 1.9% as of year-end 2020. The net interest margin (NIM) significantly contracted from 133bps to 124bps, ranging from 75bps up to 302bps among countries.
- The loan to deposit ratio declined further from 112.2% in Q4 to 111.0% in Q1. The asset encumbrance ratio increased from 27.9% as of year-end 2020 to 28.8% in Q1 2021.

EBA launched 2021 EU-wide transparency exercise.

On September 24, 2021 the European Banking Authority (EBA) launched its regular EU-wide transparency exercise, whose results are expected to be published at the beginning of December. As in the past, the exercise is exclusively based on supervisory reporting data, which will keep the burden for the banks to a minimum. Transparency exercises are conducted on an annual basis and are part of the EBA's efforts to monitor risks and vulnerabilities and to reinforce market discipline.

ECB published supervisory banking statistics for the first quarter of 2021.

On July 8, 2021 ECB published supervisory banking statistics for the first quarter of 2021. The aggregate capital ratios of significant institutions (i.e. banks that are supervised directly by the ECB) declined slightly in the first quarter of 2021 compared with the previous quarter.

The aggregate non-performing loans (NPL) ratio decreased further to 2.54% in the first quarter of 2021, despite an increase in the stock of non-performing loans to €455 billion. This was the lowest level recorded since supervisory banking statistics were first published in the second quarter of 2015. At country level, the average NPL ratio ranged from 0.71% in Luxembourg to 25.17% in Greece.

The annualized return on equity (RoE) increased considerably to an aggregate level of 7.21% in the first quarter of 2021, up from 1.21% a year earlier. This development was driven by an increase in aggregate net profits, mainly attributable to a significant increase in operating income and a decrease in impairments and provisions.

In the first quarter of 2021 the total loans and advances subject to COVID-19-related measures decreased to €617 billion, down from €673 billion in the previous quarter.

ECB - Economic Bulletin Issue 6, 2021.

On September 23, 2021 the Bank of Greece published the European Central Bank's Economic Bulletin Issue 6, 2021. According to the Bulletin, the euro area economy rose by 2.2% in the second quarter of the year, faster than expected, and is normally growing strongly in the third quarter. Consumer spending is rising, although consumers remain somewhat wary of pandemic developments. Moreover, following a significant fiscal expansion since the start of the pandemic, only limited additional stimulus measures have been adopted in recent months, as fiscal plans for 2022 are still being prepared and economic recovery appears to be moving somewhat faster than expected.

Additionally, inflation in the euro area rose to 3.0% in August but the Governing Council considers that risks surrounding the financial outlook are generally balanced. The recovery of growth and inflation still depends on favorable financing conditions for all sectors of the economy, while money creation in the euro area eased during July 2021 and further normalized after the significant monetary expansion associated with the previous waves of the pandemic. Nevertheless, many businesses and households have taken on more debt during the pandemic.

Other General aspects

EBA published the results of its 2021 EU-wide stress test.

On July 30, 2021 the European Banking Authority (EBA) published the results of the 2021 EU-wide stress test, which involved 50 banks from 15 EU and EEA countries, covering 70% of the EU banking sector assets.

Among other things the results of the stress test show that:

- Under a very severe scenario, the EU banking sector would stay above a Common Equity Tier 1 (CET1) ratio of 10%, with a capital depletion of EUR 265bn against a starting CET1 ratio of 15%.
- Credit losses, like in previous such exercises, would explain most of the capital depletion. The "lower-for-longer" scenario narrative would also result in a significant decrease in the contribution of profits from continuing operations, especially from net interest income.

The EBA has also published the results of the individual banks participating in the stress test.

EIOPA's conduct of business supervision strategy.

On July 21, 2021 the European Insurance and Occupational Pensions Authority (EIOPA) published a paper with respect to its conduct of business supervision strategy.

EIOPA first adopted a "Strategy towards a comprehensive risk-based and preventive framework for conduct of business supervision" (CoB Supervision Strategy) in September 2015, followed by the publication of the next steps for the strategy in 2018.

The implementation of CoB Supervision Strategy by EIOPA, during the first few years, was carried out through the incremental development of thematic Reviews, the Consumer Trends Report, Retail Risk Indicators, and Enhanced Market Monitoring. This paper describes EIOPA's Strategic Approach to a comprehensive risk-based and preventive framework for conduct of business supervision on a European level.

Risk Dashboard: European insurers' risk levels remain broadly stable.

On August 2, 2021 the European Insurance and Occupational Pensions Authority (EIOPA) published its Risk Dashboard based on the first quarter of 2021 Solvency II data.

The results show that insurers' exposures to macro risks remain at high level while all other risk categories remain at medium level.

EBA updated the mapping between the ITS on Pillar 3 disclosures and the ITS on supervisory reporting (v3.0).

On August 6, 2021 the European Banking Authority (EBA) published an updated tool, which specifies the mapping between quantitative disclosure data points and the relevant supervisory reporting data points. This tool aims at facilitating institutions' compliance with disclosure requirements and improving the consistency and quality of the information disclosed.

The updated mapping tool applies to the reporting framework 3.0 and the ITS on institutions' Pillar 3 public disclosures. The updates included in this version are mainly driven by changes during the adoption process of the ITS on supervisory reporting and the ITS on public disclosures.

BSMCG's 1st virtual meeting took place.

On July 7, 2021 the first virtual meeting of the Banking Supervision Market Contact Group (BSMCG) took place. BSMCG is a forum for exchanges between ECB Banking Supervision and industry-wide market professionals involved in issues related to the euro area banking sector. The BSMCG discusses developments in the banking sector, structural and regulatory trends, and the impact of ECB Banking Supervision activities. BSMCG is headed by the Chair of the Supervisory Board of the ECB.
It is noted that Ms. Katerina Koniari participated in the aforementioned meeting on behalf of Grant Thornton Greece.

ESMA sees risk of market corrections in uneven recovery.

On September 1, 2021 the European Securities and Markets Authority (ESMA), published its second Trends, Risks and Vulnerabilities (TRV) Report of 2021.

The Report highlights the continued rise in valuations across asset classes in an environment of economic recovery and low interest rates but ESMA continues to identify fragile fundamentals and elevated risks, possibly leading to continued high risk and uncertainty over the sustainability of public and corporate debt as well as rising inflation expectations.

According to the report, investor confidence has increased, connected to rising asset valuation and strong performance of retail investor instruments. Innovation, among other factors, was the driving force behind the surge in retail trading. In addition, massive price swings in crypto assets and rising valuations across classes prompt questions about increased risk-taking behavior.

Finally, ESMA provides four in-depth articles focusing on financial stability risks of cloud outsourcing, Credit Rating Agencies and green bonds namely:

- Cloud outsourcing and financial stability risks;
- COVID-19 and credit ratings;
- Market for small credit rating agencies in the EU;
- Environmental impact and liquidity of green bonds.

Step-in risk - Executive Summary.

On August 26, 2021 the Financial Stability Institute (FSI) published an executive summary of the Basel Committee on Banking Supervision (BCBS) guidelines on the management and identification of step-in risk (issued in October 2017), which refers to the risk that a bank will lend financial support to an entity beyond / in the absence of, its contractual obligations in case the entity experience financial stress.

To assist banks and supervisors deal with step-in risk, the BCBS guidelines provide a method of identification. They also illustrate potential risk measurement and management approaches that banks and supervisors can use.

Under the guidelines, banks should create their own policies and procedures to identify and measure step-in risk, to regularly conduct self-assessments and report the results to their supervisors.

The guidelines make national supervisors responsible for reviewing bank policies and procedures, their self-assessments and any remedial actions taken. If after a supervisory assessment significant residual step-in risks have not been appropriately estimated or mitigated, the decision for additional supervisory response falls on the national supervisor.

ESAs highlight risks in phasing out of crisis measures and call on financial institutions to adapt to increasing cyber risks.

On September 8, 2021 the European Supervisory Authorities (ESAs) issued the joint risk assessment report for 2021, which focuses on rising vulnerabilities across the financial sector, the increase in cyber risk and event-driven risk materialization.

According to the report, the vulnerabilities of the financial sector are increasing and inflation is growing. Additionally, there is a high exposure to cyber risk. The financial sector is the preferred target of cyber-criminals among other sectors and that is why the ESAs state that financial institutions must adapt their technical infrastructure rapidly.

Moreover, the rising volume and prices of crypto-asset trade and the materialization of event-driven risks (e.g. GameStop) indicates increased risk-taking behavior by investors.

In light of the above the ESAs advise the following:

- financial institutions and supervisors should expect a deterioration of asset quality in the financial sector;
- banks should effectively manage the transition towards the recovery phase and assess the consequences of the pandemic to their lending books;

- increases in yields and sudden reversals of risk premia should be closely monitored;
- financial institutions and supervisors must continue to carefully their cyber and ICT risks.

FSB launched new financial stability surveillance framework.

On September 30, 2021 the Financial Stability Board (FSB) published its new Financial Stability Surveillance Framework. The aim of the framework is the identification and assessment of emerging risks to financial stability. The identification is carried out in a forward looking and proactive manner as it provides a cross border/cross sectoral perspective on trending vulnerabilities.

The framework incorporates four main principles:
- focus on vulnerabilities that potentially affect financial stability on a global scale;
- the forward-looking scan of vulnerabilities without losing flexibility;
- the identification of dissimilarities among countries;
- the leverage of comparative advantages of the FSB while at the same time refraining from duplication of work.

A particular emphasis is placed on the incorporation of a multitude of perspectives in both the assessment of current and emerging vulnerabilities. Finally, the framework contains a common terminology and taxonomy of vulnerabilities promoting the creation of a shared consensus and understanding among FSB members.

Other

The National Recovery and Sustainability Plan "Greece 2.0" was approved and EC disbursed €4 billion in pre-financing to Greece equivalent to 13% of the country's grant and loan allocation under the Recovery and Resilience Facility (RRF) .

EBA proposes to further harmonise EU law applicable to branches of third country credit institutions.

On June 23, 2021 the European Banking Authority (EBA) issued a report on the treatment of incoming third country branches (TCB) under the national law of Member States. The report is based on Article 21b (10) of the Capital Requirements Directive IV which mandated the EBA to submit a report to the European Parliament, the Council and the European Commission on the treatment of third-country branches under national law of Member States by 28 June 2021.

The report sets out 14 high-level policy recommendations for the further harmonisation of EU law as regards third country branches. In particular, the recommendations focus on an EU centralised equivalence assessment, effective cooperation supported by the conclusion of memoranda of understanding with third country home authorities, an appropriately determined scope of authorisation and prudential requirements (notably capital, liquidity, internal governance including booking arrangements), certain anti-money laundering aspects, a uniform minimum reporting framework and satisfactory recovery plans.

Greek Law 4818 was published in the Official Gazette, which contains the VAT provisions for supplies and sales of goods at distance.

On July 18, 2021 Greek Law 4818 was published in the Official Gazette 124 Issue A' / 18-7-2021, which contains the VAT provisions for supplies and sales of goods at distance. In Part C of the said law and more specifically, with articles 34 - 38, a series of amendments are introduced in the provisions of Law 4738/2020 on the Debt Settlement and provision of a second chance. In addition, article 39 of Law 4818/2021 provides for the conduct through a digital platform of Stages 2 and 4 of the Delay Resolution Procedure (D.E.K.) of the Code of Banking Ethics of par. 2 of article 1 of law 4224 / 2013.

EBA published a methodological guide to mystery shopping.

On July 21, 2021 the European Banking Authority (EBA) published a methodological guide to mystery shopping. The guide sets out seven steps on how mystery shopping activities can be conceived and carried out, how national competent authorities can use the guide as a complement to other existing supervisory tools, and how to adapt such activities to the particular circumstances, goals, and mystery shopping powers conferred on national competent authorities under the national and/or EU laws, such as the EU Consumer Protection Cooperation Regulation.

The national competent authorities can consider the following steps when building a mystery shopping activity:

- Define the goals of the mystery shopping activity;
- Select the products/services and their distribution channels;
- Select the financial institutions to be mystery-shopped;
- Select the mystery shoppers and consumer profiles;
- Design scenarios for mystery shoppers;
- Design the assessment questionnaire for mystery shoppers and data gathering;
- Assess the findings and follow up.

The EBA published this methodological guide as a second step to fulfilling the new mandate it received on 1 January 2020 in Article 9(1) of the EBA Founding Regulation. The mandate requires the EBA to 'coordinate mystery shopping activities of competent authorities, if applicable'. As a first step, the EBA had published a report on mystery shopping activities of NCAs, which was published in May 2021.

EBA published its annual report on Asset Encumbrance.

On July 21, 2021 the European Banking Authority (EBA) published its annual report on Asset Encumbrance. As COVID-19 spread across Europe, banks made extensive use of central bank facilities to strengthen their liquidity buffers and maintain the flow of credit to the real economy. This resulted in the largest yearly rise in the asset encumbrance ratio since data is available. The encumbrance ratio went up from 25% in December 2019 to 27.8% by the end of 2020 and more than half of central bank eligible assets and collateral are now encumbered.

ECB recommended the repeal of recommendation ECB/2020/62.

On July 23, 2021 the European Central Bank (ECB) recommended the repeal of recommendation ECB/2020/62. The latest macroeconomic projections indicate the start of the economic recovery and a further reduction in the level of economic uncertainty. Accordingly, the ECB considers that the reasons underpinning Recommendation ECB/2020/62 are no longer present. The reduced economic uncertainty allows the thorough supervisory assessment of the prudence of banks' plans to distribute dividends and conduct share buybacks on an individual basis with a careful forward-looking assessment of capital plans in the context of the normal supervisory cycle.
This Recommendation repeals Recommendation ECB/2020/62 from 30 September 2021.

Basel Committee and the WB published a report on an earlier joint global survey that focused on proportionality in bank regulation and supervision.

On July 30, 2021 the Basel Committee on Banking Supervision (Basel Committee) and the World Bank (WB) published a report on an earlier joint global survey that focused on proportionality in bank regulation and supervision. The report mentions the following key takeaways from the analysis of survey responses:

- Proportionate implementation is practiced widely, across geographic regions and income groups. The use of proportionality is growing, as judged by respondents reporting future plans for proportionality. This is a work-in-progress but is also challenging for several jurisdictions.
- Importantly, proportionality is acknowledged by respondents as promoting banking stability, reducing unnecessary regulatory burden and compliance costs, and making effective use of scarce supervisory resources.
- However, challenges remain for jurisdictions that have adopted or are considering adopting proportionality. These challenges are during the design of proportionate approach and after proportionality is implemented.
- Implementation is motivated by factors other than risk profile or systemic relevance in some cases.

The National Recovery and Sustainability Plan "Greece 2.0" was approved.

On July 2021, the National Recovery and Sustainability Plan "Greece 2.0" was posted on Axis 4.1 "Tax tools friendlier for the development and improvement of the tax administration" which provides, inter alia, for actions to strengthening electronic transactions. The primary objective of this Plan is to fill the gap in investment, national product and employment, which has significantly affected the performance of the Greek economy over the last decade and has deteriorated further due to the current pandemic crisis.

In addition, the National Recovery and Sustainability Plan consists of the following 4 pillars:

- Green transition;
- Digital transformation of the state and enterprises;
- Employment, skills and social cohesion; and
- Private investment and economic and institutional transformation.

ECB published the Annual Report on Sanctioning Activities in the SSM in 2020.

On August 3, 2021 the European Central Bank (ECB) published the Annual Report on Sanctioning Activities in the SSM in 2020. This report has been prepared by the SSM Network of Enforcement and SanctionsExperts to present comprehensive statistics on the sanctioning activities in relation to breaches of prudential requirements carried out in 2020 by the ECB and the national competent authorities (NCAs) of participating Member States under the Single Supervisory Mechanism (SSM).

EC disbursed €4 billion in pre-financing to Greece.

On August 9, 2021 the European Commission (EC) disbursed €4 billion to Greece in pre-financing, equivalent to 13% of the country's grant and loan allocation under the Recovery and Resilience Facility (RRF). Greece is one of the first countries receiving a pre-financing payment under the RRF. The pre-financing will help to kick-start the implementation of the crucial investment and reform measures outlined in Greece's recovery and resilience plan.

EBA updated data used for the identification of G-SIIs.

On August 19, 2021 the European Banking Authority (EBA) published the 2020 data that serves as input for the internationally agreed standards on which a subset of banks will be identified as global systemically important institutions (G-SIIs), following the final decision from the Basel Committee on Banking Supervision (BCBS) and the Financial Stability Board (FSB). The published data, which is from the 31 largest institutions in European Union, spans 12 indicators in the categories of size, interconnectedness, substitutability/financial institution infrastructure, complexity, and cross-jurisdictional activity.

The list of banks included in this is based on the EBA guidelines on disclosure of indicators of global systemic importance. Both the Regulatory Technical Standards (RTS) on the specification of the methodology for the identification and definition of subcategories of G-SIIs and guidelines on disclosure of G-SIIs have been developed in accordance with the Capital Requirements Directive (CRD IV) on the basis of internationally agreed standards, such as the framework established by BCBS and FSB.

Identification of a G-SII falls under the responsibility of national competent authorities and the identification process is updated by December 15 every year. The identification will be based on the disclosure of global denominators and G-SIB exercise results, which BCBS and FSB are expected to publish in November each year.

State aid: Commission gives green light to new synthetic securitization product under the European Guarantee Fund to further support SMEs affected by the coronavirus outbreak in 22 Member States.

The European Commission approved, under EU State aid rules, the introduction of a new product in the form of guarantees on synthetic securitization tranches under the European Guarantee Fund managed by the European Investment Bank Group (consisting of the European Investment Bank, "EIB" and the European Investment Fund, "EIF") to support companies affected by the coronavirus outbreak in the 22 participating Member States. With an envisaged dedicated budget of €1.4 billion, the new product is expected to mobilize at least €13 billion of new lending to small and medium-size enterprises (SMEs) affected by the outbreak. This is a significant contribution to the overall target for the European Guarantee Fund to mobilize up to €200 billion of additional financing in the 22 participating Member States.

The purpose of the new product is to help originate new, riskier lending by financial intermediaries to SMEs. The aim is to free up lending capacity of financial intermediaries and prevent that their resources are shifted towards lower-risk assets instead of loans to SMEs. The risk of such a shift exists given the economic crisis caused by the coronavirus pandemic, which is expected to lead to downgrades in the financial intermediaries' existing loan books and therefore to increasing demands for those intermediaries' regulatory capital.

EIOPA published monthly update of the symmetric adjustment of the equity capital charge for Solvency II – end August 2021.

On September 3, 2021 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 August 2021.

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.

EBA issued revised list of ITS validation rules.

On September 10, 2021 the European Banking Authority (EBA) issued a revised list of validation rules in its Implementing Technical Standards (ITS) on supervisory reporting, 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 ITS should not be formally validated against the set of deactivated rules.

State of the Union: Commission proposes a Path to the Digital Decade to deliver the EU's digital transformation by 2030.

On September 15, 2021 the Commission proposed a Path to the Digital Decade, a concrete plan to achieve the digital transformation of our society and economy by 2030. The proposed Path to the Digital Decade will translate the EU's digital ambitions for 2030 into a concrete delivery mechanism. It will set up a governance framework based on an annual cooperation mechanism with Member States to reach the 2030 Digital Decade targets at Union level in the areas of digital skills, digital infrastructures, digitalization of businesses and public services. It also aims to identify and implement large-scale digital projects involving the Commission and the Member States.

The pandemic highlighted the central role that digital technology plays in building a sustainable and prosperous future. In particular, the crisis exposed a divide between digitally apt businesses and those yet to adopt digital solutions, and highlighted the gap between well-connected urban, rural and remote areas. Digitalization offers many new opportunities on the European marketplace, where more than 500,000 vacancies for cybersecurity and data experts remained unfilled in 2020. In line with European values, the Path to the Digital Decade should reinforce our digital leadership and promote human centered and sustainable digital policies empowering citizens and businesses.

Inflation expectations and their role in Eurosystem forecasting.

On September 24, 2021 the Eurosystem's Expert Group on Inflation Expectations (EGIE) released a paper regarding inflation expectations and their role in Eurosystem forecasting.

The EGIE was tasked with:

- reviewing the nature and behavior of inflation expectations, with a focus on the degree of anchoring;
- exploring the role that measures of expectations can play in forecasting inflation.

While it is households' and firms' inflation expectations that ultimately matter in the expectations channel, data limitations have meant that in practice the focus of analysis has been on surveys of professional forecasters and on market-based indicators. Regarding the anchoring of inflation expectations, this paper considers a number of metrics: the level of inflation expectations, the responsiveness of longer-term inflation expectations to shorter-term developments, and the degree of uncertainty. Different metrics can provide conflicting signals about the scale and timing of potential unanchoring, which underscores the importance of considering all of them.

Overall, however, these metrics suggest that in the period since the global financial and European debt crises, longer-term inflation expectations in the euro area have become less well anchored. Regarding the role measures of inflation expectations can play in forecasting inflation, this paper finds that they are indicative for future inflationary developments. When it comes to their predictive power, both market-based and survey-based measures are found to be more accurate than statistical benchmarks, but do not systematically outperform each other. Beyond their role as standalone forecasts, inflation expectations bring forecast gains when included in forecasting models and can also inform scenario and risk analysis in projection exercises performed using structural models.

ECB's price stability framework: past experience, and current and future challenges.

In the context of a secular decline in the equilibrium real interest rate, the lower bound on nominal interest rates has tested the ability of the European Central Bank (ECB) to maintain price stability. On this basis, on September 23, 2021 the ECB published a report that examines:

1. the ECB's performance as measured against its formulation of price stability;
2. whether there is a possibility to identify a preferred level of steady-state inflation based on optimality considerations;
3. pros and cons of formulating the price stability objective in respect of a focal point or a range, or having both;
4. whether the medium-term orientation of the ECB's policy can act as a mechanism to cater for other considerations;
5. how to reinforce, in the presence of the lower bound, the ECB's leverage on private-sector expectations for inflation and the future policy actions of the ECB, so that expectations can serve as 'automatic stabilisers' and work alongside the central bank.

Publication of Delegated Regulation (EU) 2021/1722 of the EC on the framework for cooperation and exchange of information between the competent authorities of the home Member State and the host Member State under PSD2.

On September 28, 2021 the delegated Regulation (EU) 2021/1722 of the European Commission was published in the Official Journal of the European Union, adopting the regulatory technical standards of the European Banking Authority (EBA) on the framework for cooperation and exchange of information between the competent authorities of the home Member State and the host Member State on the supervision of payment institutions and electronic money institutions operating on a cross-border basis.

In particular, this Regulation sets out the manner, means and details of such cooperation, in particular as regards the scope and management of the information exchanged with the ultimate aim of ensuring consistent and effective supervision of payment institutions and electronic institutions in the provision of cross-border payment services.

The regulation also specifies the means and details of the reports submitted by the competent authorities of the host Member States to payment institutions and electronic money institutions concerning payment business operations in their territory, including the frequency with which such reports are to be submitted.

Provision of online services of G.E.M.I. to BoG and e-E.F.K.A. through the Interoperability Center (KE.D.) of G.S.I.S.

On September 22, 2021 the Ministerial Decision No. 32252 EX 2021 was published (Government Gazette B '4368) for the provision of the online services of the General Commercial Registry (G.E.M.I.) to the Bank of Greece and to the electronic National Social Security Fund (e-E.F.K.A.) through the Interoperability Center (KE.D.) of General Secretariat of Information Systems for Public Administration (G.S.I.S.).

The structure of this Decision is as follows:

- Article 1 contains provisions for the availability of the online services of the General Commercial Register (G.E.M.I.) at the Bank of Greece with the ultimate goal of ensuring the constant updating of the Register of Institutions and Affiliates database (RIAD) and enhancing the quality of its data;
- Article 2 includes provisions for the availability of the online services of the General Commercial Register (G.E.M.I.) to the Electronic National Social Security Agency (e-E.F.K.A.) with the ultimate goal of improving the existing control procedures the fight against levy evasion and levy avoidance;
- Article 3 contains provisions on organizational security measures and the protection of personal data; and
- Article 4 contains provisions for the entry into force of this Decision (i.e. September 22, 2021).

ESMA published its 2022 annual work program.

On September 28, 2021 the European Securities and Markets Authority (ESMA) published the 2022 annual work program, which sets out work priorities for the next 12 months. The key focus areas for 2022 include the exercise of new, and existing, supervisory powers for benchmarks, data service providers, and central counterparties (CCPs); contribution to development of the Capital Markets Union, sustainable finance, and digitalization; and convergence of supervisory and regulatory practices across European Union. ESMA will also continue to monitor the impact of Brexit on the evolution of European Union and global capital markets.

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
EFKA
National Social Security Fund
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
GEMI
General Electronic Commercial Registry
GSIS
General Secretariat of Information Systems for Public Administration
IOSCO
International Organization of Securities Commissions
IAS
International Accounting Standards
IFRS
International Financial Reporting Standards
ITS
Implementing Technical Standards
IT
Information Technology
IOSCO
International Organization of Securities Commissions
LCR
Liquidity Coverage Ratio
LIBOR
London Inter-Bank Offered Rate

APPENDIX: GLOSSARY

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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