THE FINANCIAL SERVICES INSIDER

Risk & Regulatory Insights

Regulatory updates

May 2023

Highlights

The 1st quarter of 2023 was marked by several regulatory developments in various areas such as AML, ESG, Risk Management, Insurance and Capital Markets

Anti-Money Laundering (AML)

FATF published i) its annual report for 2021-2022, ii) a list of states under enhanced scrutiny and high-risk states for AML/CFT purposes and iii) new guidance on BO of legal persons. Also, ESRB issued a report on promoting macro-precautionary tools to ensure cyber resilience.

Capital Markets

EBA i) published peer review on authorisation under the PSD, ii) clarified the application of strong customer authentication requirements to digital wallets, iii) published a consultation on amending ITS on supervisory disclosures and iv) published final draft technical standards defining the homogeneity of the underlying exposures in STS securitization.

Moreover, ESMA published:

- a consultation on the review of the methodology on stress test scenarios for MMF;
- a report regarding artificial intelligence in EU securities markets;
- the results of the annual transparency calculations for equity and equity-like instruments; and
- guidance on fractional shares.

Furthermore, ECB published a survey about Banks' digital transformation and an article regarding the new T2 wholesale payment system, while BIS published a report regarding ISO 20022 harmonisation requirements for enhancing cross-border payments.

Environmental, Social and Governance (ESG)

ECB published i) the results of the 2022 climate risk stress test of the Eurosystem balance sheet, ii) its report regarding climate-related financial disclosures for non-monetary policy portfolios and iii) new climate-related statistical indicators to narrow climate data gap. Also, ECB & ESAs published a Joint Statement calling for the development of harmonized data requirements in climate-related disclosures for structured finance products. Moreover, ESMA & EBA issued their opinions on the draft ESRS.

Furthermore, EC:

- adopted the 2022 summary report on the implementation of the ESI funds;
- officially presented the Green Deal Industrial Plan to enhance the competitiveness of Europe's net-zero industry and support the fast transition to climate neutrality;

Highlights

- approved €1.36 billion Greek scheme to compensate energy-intensive companies for indirect emission costs;
- announced an investment of over €116 million for the new LIFE Programme's strategic projects;
- amends GBER to further facilitate and speed up green and digital transition;
- issued €6 billion of NextGenerationEU green bonds in fourth syndicated transaction for 2023.

FinTech

BIS issued a bulletin that addresses the risks from crypto market and a working paper providing a deep dive into DeFi. Furthermore, ECB published the main take-aways from the horizontal assessment of the survey on digital transformation and the use of fintech, while EC launched the "Regulatory Sandbox" for blockchain technology.

Insurance

EIOPA published i) its Risk Dashboard based on Solvency II data from the third quarter of 2022, ii) a consultation on changes to the minimum amount of professional indemnity insurance cover and financial capacity intermediaries need under IDD, iii) a staff paper on nature-related risks and their relevance to insurance and iv) a new survey to map financial innovation in insurance.

Moreover, Insurance Europe responded to a discussion paper by the EIOPA on the prudential treatment of sustainability risks. In addition, a group of industry representatives – including Insurance Europe - published a statement calling on the European Parliament to ensure AI Act is risk-based and facilitates innovation in Europe.

Furthermore, IASB proposed narrow-scope amendments to classification and measurement requirements for financial instruments while GFIA report identifies trillion-dollar global protection gaps. Also, Insurance Europe and the European CFO Forum published a set of joint key messages on the EFRAG technical advice on the first set of ESRS.

MIFID II

ESMA updated its guidance on product governance.

Risk Management

EBA published i) its quarterly Risk Dashboard, ii) its report on liquidity measures, iii) Handbook on data submission for supervisory benchmarking, iv) its annual quantitative monitoring report on MREL complemented by a related impact assessment, v) annual assessment of banks' internal approaches for the calculation of capital requirements and vi) new set of indicators to identify potential causes of consumer harm.

Highlights

Moreover, EBA launched 2023 EU-wide stress test while ECB published the January 2023 euro area bank lending survey. Furthermore, SRB, EBA and ECB Banking Supervision published a statement about the comprehensive set of actions taken by the Swiss authorities in order to ensure financial stability.

Other

EC raised a further €6 billion in its third syndicated transaction for 2023 and provided guidance to Member States on the conduct and coordination of fiscal policy for next year. ECB published its annual report on supervisory activities for 2022 while BIS published 2022 IFC annual report. Moreover, FSB published a report setting out priority actions for achieving the G20 targets for enhancing cross-border payments. Furthermore, EBA published its report on diversity practices and the gender pay gap at the level of the management body.

Anti-Money Laundering (AML)

FATF published a list of states under enhanced scrutiny and high-risk states for AML/CFT purposes.

FATF Annual Report 2021-2022.

On February 07, 2023 the Financial Action Task Force (FATF) published its Annual Report for 2021-2022. This report summarizes the work of the Financial Action Task Force from 1 July 2021 to 30 June 2022, under the Presidency of Dr. Marcus Pleyer. Some key achievements for the aforementioned timeframe were:

- The completion of crucial work on strengthening the standard on beneficial ownership transparency which will help prevent criminals from laundering billions of dollars each year through shell companies and other legal persons.
- The issuance of reports that explore how technology can help detect suspicious activities, analyze financial intelligence, and better understand money laundering and terrorist financing risks.
- The issuance of a report that focuses on the laundering of proceeds from migrant smuggling and a guidance to help countries implement the FATF Standards for virtual assets and virtual asset service providers.
- The finalization of guidelines to help real estate sector professionals to implement risk-based measures to prevent money laundering and terrorist financing.
- The publication of mutual evaluation reports for three FATF members. The FATF also published the follow-up reports for ten of its members.

ESRB Report on Promoting Macro-Precautionary Tools to Ensure Cyber Resilience.

On February 14, 2023 the European Systemic Risk Board issued a Report on Promoting Macro-Precautionary Tools to Ensure Cyber Resilience.

The ESRB worked in 2022 within the context of a substantially heightened cyber threat environment across Europe and responded by enhancing the exchange of information across jurisdictions / authorities and focusing on the tools and elements needed to advance cyber resilience and strengthen preparedness for potential cyber incidents. Some examples include the advancement of a cyber resilience scenario testing (CyRST) approach and the development of the concept for a systemic impact tolerance objective (SITO).

The heightened cyber threat environment across Europe calls for a step change in enhancing system-wide cyber resilience. Against this background, the ESRB has three key areas of focus:

1. The ESRB encourages authorities to use the CyRST approach to pilot system-wide cyber resilience scenario testing as soon as possible.
2. The ESRB advocates the use of SITOs and will continue to transition from a conceptual approach to a practical basis for implementing them.
3. The ESRB will consider which operational policy tools are most effective in responding to a system-wide cyber incident and identify gaps across operational and financial policy tools.

Anti-Money Laundering (AML)

FATF List of States Under Enhanced Scrutiny and High Risk States for AML/CFT Purposes & Notice on Russia.

On February 24, 2023 the Financial Action Task Force published an updated list of states under increased monitoring, an updated list of high-risk states for 'AML/CFT' purposes as well as an announcement suspending Russia's membership due to the invasion in Ukraine.

Jurisdictions under increased monitoring are actively working with the FATF to address strategic deficiencies in their regimes to counter money laundering, terrorist financing, and proliferation financing.

In respect to high-risk countries, the FATF calls on all members and urges all jurisdictions to apply enhanced due diligence, and, in the most serious cases, countries are called upon to apply counter-measures to protect the international financial system from the money laundering, terrorist financing, and proliferation financing (ML/TF/PF) risks emanating from the country.

The Russian Federation’s actions unacceptably run counter to the FATF core principles aiming to promote security, safety, and the integrity of the global financial system. Considering the above, the FATF has decided to suspend the membership of the Russian Federation. However, the Russian Federation remains accountable for its obligation to implement the FATF Standards and meet its financial obligations. The Russian Federation will remain a member of the Global Network as an active member of the Eurasian Group on Combating Money Laundering (EAG) and retain its rights as an EAG member. The FATF will monitor the situation and consider at each of its Plenary meetings whether the grounds exist for lifting or modifying these restrictions.

FATF: Guidance on Beneficial Ownership of Legal Persons.

On March 10, 2023 the Financial Action Task Force (FATF) issued new guidance relating to beneficial ownership (BO) for legal persons. In addition to explaining how to identify, design, and implement appropriate measures to prevent the misuse of legal persons, the report provides specific advice relating to the recently revised “Recommendation 24”. Requirements relating to wire transfers and virtual assets (VAs) are also discussed.

Capital Markets

ECB published a survey about Banks' digital transformation.

EBA published peer review on authorisation under the PSD.

On January 11, 2023 the European Banking Authority (EBA) published its peer review on authorisation of payment institutions and e-money institutions under the revised Payment Services Directive (PSD2). The review generally found increased transparency and consistency of the information required in the authorisation process. However, it also identified significant divergences in competent authorities' assessment and the degree of scrutiny of applications. The review, therefore, sets out a series of measures to address such divergencies, to level out the supervisory playing field and to mitigate against "forum shopping".

ESMA: consultation on the review of the methodology on stress test scenarios for MMF.

On January 31, 2023 the European Securities and Markets Authority (ESMA) published a consultation paper seeking input on the review of the methodology included in the Guidelines on stress test scenarios under the Money Market Funds (MMF) Regulation.

In light of recent market developments and the COVID-19 related stress of March 2020, the proposed revision of the scenarios relates to the hypothetical changes in the level of liquidity of the assets held in the portfolio of the MMF and the hypothetical macro systemic shocks affecting the economy as a whole.

The Consultation Paper focuses on the following changes to the current methodology:

- the proposed revision of the liquidity scenario aims to better take into account the interaction between liquidity and redemption pressures, in light of the stress event experienced in March 2020; and
- the proposed revision of the macro scenario intends to better capture the macroprudential impact of the scenario, by including assumptions on the underlying markets and other market participants.

EBA clarifies the application of strong customer authentication requirements to digital wallets.

On January 31, 2023 the European Banking Authority (EBA) published three Q&As that, jointly with three other Q&As that the EBA had published previously, clarify comprehensively the application of strong customer authentication (SCA) to digital wallets under the revised Payment Service Directive (PSD2). This press release provides a summary of these Q&As and, thus, aims at bringing about a consistent understanding by all market stakeholders of the applicable requirements.

The six Q&As clarify the application of SCA to the enrolment of a payment card to a digital wallet and to the initiation of payment transactions with digitised versions of a payment card. They also clarify the requirements applicable to the outsourcing of the application of SCA to digital wallet providers.

IOSCO report provides new insights into global investment funds industry.

On January 27, 2023 the Board of the International Organization of Securities Commissions (IOSCO) published the second edition of the Investment Funds Statistics Report (IFSR), which provides new insights into the global investment funds industry. The report is based on a comprehensive collection of IOSCO members' supervisory data as of end-2021.

The IFSR is an annual exercise that aims to facilitate the regular collection and analysis of investment fund data, enabling regulators and stakeholders to share information and observe trends in the global investment funds sector. It builds on the foundations of IOSCO's previous biennial Hedge Funds Survey.

Last year, IOSCO published the first edition of the IFSR. This year's report updates the analysis with new data and, for the first time, provides trend analysis on open-ended funds and closed-ended funds.

Capital Markets

BIS: Digital payments make gains but cash remains.

On January 31, 2023 the Bank for International Settlements (BIS) published an article about the strong growth in digital payments. Digitization is changing the way people pay. Over the last decade, technological innovations have enabled new access modes, such as online banking and mobile apps. This has helped consumers and businesses to migrate away from cash and cheques towards electronic payments, including card payments, electronic fund transfers and e-money payments. In addition, an increased demand for convenience and speed has resulted in a growing use of contactless and fast payments.

Some of these trends accelerated with the Covid-19 pandemic in 2020. The 2020 Red Book statistics (as well as other studies) were already pointing to a significant uptake in digital credit transfers and contactless card payments. At the same time, the pandemic led to a surge in cash holdings.

This CPMI Brief documents the extent to which these trends continued using the 2021 Red Book statistics collected in the second half of 2022 for the 27 member jurisdictions of the Bank for International Settlements' Committee on Payments and Market Infrastructures (CPMI).

ESMA: Artificial intelligence in EU securities markets.

On February 01, 2023 the European Securities and Markets Authority (ESMA) published a report regarding artificial intelligence in EU securities markets.

The use of artificial intelligence (AI) in finance is under increasing scrutiny from regulators and supervisors interested in examining its development and the related potential risks. In asset management, an increasing number of managers leverage AI in investment strategies, risk management and compliance. However, only a few of them have developed a fully AI-based investment process and publicly promote the use of AI. In trading, AI models allow traders, brokers, and financial institutions to optimise trade execution and post-trade processes, reducing the market impact of large orders and minimising settlement failures. In other parts of the market, some credit rating agencies, proxy advisory firms and other financial market participants also use AI tools, mostly to enhance information sourcing and data analysis.

Overall, although AI is increasingly adopted to support and optimise certain activities, this does not seem to be leading to a fast and disruptive overhaul of business processes. A widespread use of AI comes with risks. In particular, increased uptake may lead to the concentration of systems and models among a few "big players".

EBA consults on the amending ITS on supervisory disclosures.

On February 08, 2023 the European Banking Authority (EBA) launched a public consultation on its draft Implementing Technical Standards (ITS) on supervisory disclosures. The amended draft ITS incorporate the changes to the EU legal framework, in particular those related to supervisory reporting and investment firms.

EBA published final draft technical standards defining the homogeneity of the underlying exposures in STS securitization.

On February 14, 2023 the European Banking Authority (EBA) published its final draft Regulatory Technical Standards (RTS) setting out the conditions for the assessment of the homogeneity of the underlying exposures in a pool of a Simple Transparent and Standardised (STS) on-balance-sheet securitisation. Homogeneity is one of the key simplicity requirements enabling originators and investors to properly assess the underlying risks while facilitating investors due diligence.

In particular, these RTS clarify that also for on-balance-sheet securitisations, homogeneous exposures need to be underwritten according to similar underwriting standards and serviced according to similar servicing procedures. In addition, they need to fall within the same asset category specified therein and be further assessed with reference to at least one of the homogeneity factors, such as type of obligor, ranking of security rights, jurisdiction, or type of immovable property.

Finally, in order to ensure a continuation of existing securitisation transactions, transitional provisions have been introduced for those securitisations who have been notified as STS and whose securities were issued before its application date. This ensures that existing transactions will continue to remain STS compliant.

Capital Markets

IOSCO members report high level of implementation for Regulator's Principles.

On February 15, 2023 the International Organization of Securities Commissions (IOSCO) published a report that indicates that implementation of IOSCO's core Principles regarding the Regulator is high across most of the participating member jurisdictions. The report on IOSCO Standards Implementation Monitoring on Principles 1 to 5 is based on a review of 55 IOSCO member jurisdictions from both emerging and advanced markets (ISIM Review). Principles 1 to 5 establish the desirable attributes of a regulator, emphasizing the independence and accountability of the regulator as well as the need for regulators to have adequate powers and resources. These Principles form an integral part of IOSCO's 38 Objectives and Principles of Securities Regulation which provide core elements for securities regulation.

Banks' digital transformation: where do we stand?

On February 15, 2023 European Central Bank (ECB), published a survey about Banks' digital transformation.

Technological innovation triggers structural change in all areas of the global economy, and banking is no exception. Digital transformation is not just an option any longer for banks, but a necessity to remain competitive and continue meeting customers' evolving demands. There is no single understanding of what "digital transformation" exactly means. Still, it emerges as a broad concept embracing business models, processes, resources, and the cultural changes that the adoption of technologies enable. While ECB Banking Supervision will maintain a neutral approach to business models and technology, one of the key supervisory priorities is ensuring that banks properly manage the long-term sustainability of their business model and the risks stemming from digital transformation.

The results of the survey relate to six focus areas:

i. Digital strategy and KPI steering

ii. Digital business

iii. Investments and resources

iv. Governance and cooperation

v. Use of innovative technologies

vi. Risks

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

On March 01, 2023 the European Securities and Markets Authority (ESMA) published the results of the annual transparency calculations for equity and equity-like instruments, which will apply from 1 April 2023.

Currently, there are 1,169 liquid shares and 1,044 liquid equity-like instruments other than shares, subject to MiFID II/MiFIR transparency requirements.

Market participants are invited to monitor the release of the transparency calculations for equity and equity-like instruments on a daily basis to obtain the estimated calculations for newly traded instruments and the four-weeks calculations applicable to newly traded instruments after the first six-weeks of trading. ESMA's annual transparency calculations are based on the data provided to Financial Instruments Transparency System (FITRS) by trading venues and approved publication arrangements in relation to the calendar year 2022.

ISO 20022 harmonisation requirements for enhancing cross-border payments.

On March 01, 2023 the Bank for International Settlements (BIS) published a report regarding ISO 20022 harmonization requirements for enhancing cross-border payments.

With most of the world's payment systems adopting the ISO 20022 messaging standard by 2025, the coming years will be crucial for converging on its harmonized use to fully leverage its full potential to make cross-border payments faster, cheaper and more transparent.

ISO 20022 is a global and open standard for exchanging financial information. It provides a common language that can be used in every kind of financial transaction, including cross-border payments. Moreover, ISO 20022 allows for richer and more structured data to be shared via standardized messages.

The BIS Committee on Payments and Market Infrastructures (CPMI) has worked with financial industry representatives to facilitate a harmonized adoption and use of ISO 20022 for cross-border payments.

Capital Markets

Successful launch of new T2 wholesale payment system.

On March 21, 2023 the European Central Bank (ECB) published an article regarding the new T2 wholesale payment system. Eurosystem has successfully launched the new T2 wholesale payment system, which comprises an RTGS system and a central liquidity management tool. Migration to the new system took place between 17 and 20 March 2023. T2 has replaced TARGET2 as the new RTGS system for settling payments related to the Eurosystem's monetary policy operations, as well as bank-to-bank and commercial transactions. TARGET2 processed payments worth €2.2 trillion per day on average. The first day of T2 operations went smoothly despite a delayed closure, the root cause of which was identified and fixed.

This project was initiated in December 2017 with the aim of harmonizing and integrating TARGET services for the benefit of Europe's financial markets and improving cost efficiency. The new system offers enhanced cyber resilience and optimizes the use of liquidity, as participants are able to steer, manage and monitor liquidity in central bank money across all TARGET services. This project is part of the Eurosystem's continued efforts to modernize market infrastructure, ensuring that it is future-proof and meets the needs and expectations of market participants, and further improving the efficiency of Europe's financial markets.

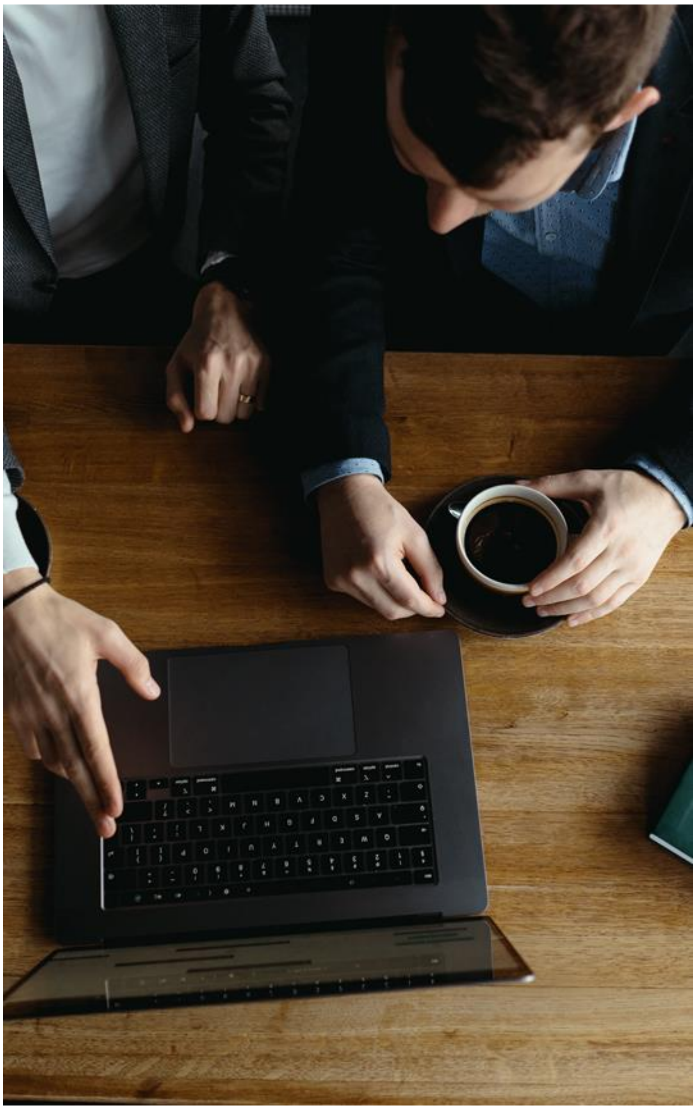
ESMA published guidance on fractional shares.

On March 28, 2023 the European Securities and Markets Authority (ESMA) issued a Public Statement addressing investor protection concerns raised by derivatives on fractions of shares.

The statement highlights that derivatives on fractions of shares are not corporate shares, and therefore firms should not use the term fractional shares when referring to these instruments. Additionally, in line with the obligation to make clients reasonably able to understand the nature and risks of the specific type of financial instrument, firms should make clear to the investor that they are buying a derivative instrument.

The statement also reminds firms that:

- All information provided to clients on these instruments shall be fair, clear, and not misleading and that firms must clearly disclosed all direct and indirect costs and charges relating to them;
- As derivatives, these instruments are complex products, and this is expected to result in a narrow target market of clients; and
- As derivatives are complex financial instruments, an appropriateness assessment needs to be carried out where non-advised services are provided.



Environmental, Social and Governance (ESG)

ECB published the results of the 2022 climate risk stress test of the Eurosystem balance sheet.

ECB published new climate-related statistical indicators to narrow climate data gap.

On January 24, 2023 the European Central Bank (ECB) published a first set of climate-related statistical indicators to better assess the impact of climate-related risks on the financial sector and to monitor the development of sustainable and green finance.

The indicators cover three areas:

- Experimental indicators on sustainable finance provide an overview of debt instruments labelled as "green", "social", "sustainability" or "sustainability-linked" by the issuer that are issued or held in the euro area.
- Analytical indicators on carbon emissions financed by financial institutions provide information on the carbon intensity of the securities and loan portfolios of financial institutions, and on the financial sector's exposure to counterparties with carbon-intensive business models.
- Analytical indicators on climate-related physical risks analyze the impact of natural hazards, such as floods, wildfires, or storms, on the performance of loans, bonds, and equities portfolios.

ESMA issued its first opinion on the draft ESRS.

On January 26, 2023 the European Securities and Markets Authority (ESMA) issued its opinion on the first set of draft European Sustainability Reporting Standards (ESRS Set 1) developed by the European Financial Reporting Advisory Group (EFRAG). ESMA found that ESRS Set 1 broadly met the objectives of being conducive to investor protection.

ESMA advised that in order to bring the ESRS Set 1 from broadly capable to fully capable of meeting the objective of investor protection, the European Commission needs to address the selected technical issues which it has set out in the opinion.

Most notably, the issues relate to improvements of the level of consistency with the requirements of the Corporate Sustainability Reporting Directive and other EU legislation.

The Commission will consider ESMA's opinion and opinions from the EBA, EIOPA and other public bodies and adopt ESRS Set 1 into delegated acts by 30 June 2023.

EBA issued opinion to the EC on the draft ESRS.

On January 26, 2023 the European Banking Authority (EBA) published an opinion on the draft European Sustainability Reporting Standards (ESRS) developed by the European Financial Reporting Advisory Group (EFRAG). In this opinion, addressed to the European Commission, the EBA acknowledges that, overall, the draft ESRS are consistent with international standards and any other relevant EU Regulation. In addition, the EBA very much welcomes the level of alignment with the Pillar 3 disclosure requirements reached at this stage. The EBA also highlights a few aspects that should deserve further consideration by the European Commission.

EU Cohesion Policy: ESI Funds supported SMEs, employment of millions of people and clean energy production.

On January 31, 2023 the European Commission adopted the 2022 Summary Report on the Implementation of the European Structural and Investment (ESI) Funds. The report presents the achievements of the ESI Funds by the end of 2021:

- More than 4 million small and medium businesses (SMEs) were supported;
- 55.2 million people were supported through employment, social inclusion or skills and education actions;
- Energy production capacity was increased;
- 2.3 million projects supported the agricultural sector and rural SMEs becoming more competitive, and helped create jobs in rural areas;
- In the fishing and aquaculture sector 44,000 jobs were maintained and more than 6,000 new jobs were created.

Environmental, Social and Governance (ESG)

The Green Deal Industrial Plan: putting Europe's net-zero industry in the lead.

On February 01, 2023 the European Commission officially presented the Green Deal Industrial Plan to enhance the competitiveness of Europe's net-zero industry and support the fast transition to climate neutrality. The Plan aims to provide a more supportive environment for the scaling up of the EU's manufacturing capacity for the net-zero technologies and products required to meet Europe's ambitious climate targets. The Plan builds on previous initiatives and relies on the strengths of the EU Single Market, complementing ongoing efforts under the European Green Deal and REPowerEU. It is based on four pillars: a predictable and simplified regulatory environment, speeding up access to finance, enhancing skills, and open trade for resilient supply chains.

State aid: EC approved €1.36 billion Greek scheme to compensate energy-intensive companies for indirect emission costs.

On February 07, 2023 the European Commission authorized a Greek scheme to partially compensate energy-intensive companies for higher electricity prices resulting from indirect emission costs under the EU Emissions Trading System (ETS).

The scheme, which has a total estimated budget of €1.36 billion, will cover part of the increase in electricity prices due to the impact of coal prices on the cost of electricity production – the so-called indirect emission cost – which will arise in the period from 2021 to 2030.

The measure aims to reduce the risk of “carbon leakage” and will benefit companies in sectors at risk of carbon leakage listed in Annex I of the Guidelines on State aid in the context of the greenhouse gas Emissions Trading System after 2021.

Toward a green economy: the role of central bank’s asset purchases.

On February 13, 2023 the European Central Bank (ECB) published a working paper regarding the role of central bank’s asset purchases towards a green economy. A DSGE model is used to study the effectiveness of green-asset purchases by the central bank (Green QE), along the transition to a carbon-free economy driven by an emission tax, abstracting from price stability considerations.

The findings show that Green QE helps to further reduce emissions, especially in the early stage of the transition. A crucial parameter to determine the effectiveness of Green QE is the elasticity of substitution between the brown and the green good: the higher the elasticity the stronger the impact of the policy on emissions.

Next Generation EU: RRF continues to be a central driver of the EU's green and digital transformation.

On February 21, 2023 the European Commission adopted communication marking the two-year anniversary of the creation of the Recovery and Resilience Facility (RRF), the key instrument at the heart of the EUR 800 billion NextGenerationEU recovery plan for Europe.

The Communication takes stock of the concrete results achieved so far through the RRF's unprecedented double-push for green and digital reforms and investments in Member States. It also outlines further steps for supporting the continued successful implementation of national recovery and resilience plans. The annexes to the Communication clarify certain technical aspects of the way in which the Commission assesses Member States' progress.

ECB: The climate and the economy.

On March 07, 2023 the European Central Bank (ECB) published a paper which draws on economic research to identify some key medium - and long-run economic implications of climate change. It explores implications for growth, innovation, inflation, financial markets, fiscal policy, and severalsocio-economic outcomes. The main message that emerges is that climate change will cause income divergence across individuals, sectors, and regions, adjustment in energy markets, increased inflation variability, financial markets stress, intensified innovation, increased migration, and rising public debt. These challenges appear manageable for EU member states, especially under an early and orderly transition scenario. At the same time, the direction, scope, and speed of economic transformation is subject to large uncertainty due to two separate factors: the wide range of climate scenarios for a given trajectory of greenhouse gas emissions and the exact policy path governments choose, especially in the context of the ongoing Russian aggression in Ukraine.

Environmental, Social and Governance (ESG)

LIFE programme: EU invests more than €116 million in nature, environment and climate Strategic Projects.

On March 09, 2023 the European Commission announced an investment of over €116 million for the new LIFE Programme's Strategic Projects. The funding will help eight major projects in 7 member states to reach their climate and environmental targets. The projects are expected to mobilise significant additional funds from other EU funding sources, including agricultural, structural, regional and research funds, in addition to national funds and private sector investment.

The projects will help Europe become the world's first climate-neutral continent by 2050 and successfully implement the European Green Deal. They also support the EU Biodiversity Strategy for 2030, the Circular Economy Action Plan, the Zero Pollution Action Plan, the Nature Restoration Law and contribute to a clean energy transition.

State aid: EC amends GBER to further facilitate and speed up green and digital transition.

On March 09, 2023 the European Commission approved revisions to the General Block Exemption Regulation (GBER) and the Temporary Crisis Framework with the aim of enabling Member States to provide the necessary support to key sectors in line with the Green Deal Industrial Plan in order to accelerate the EU's green and digital transition.

The GBER allows Member States to declare certain categories of aid compatible with the internal market without prior notification to the European Commission, provided that they comply with the general and specific conditions set out in the GBER. The GBER, which has been in force since 2014, has already been revised several times, notably in 2017 to include new categories of aid for ports and airports and in 2021 to include, among others, financing and investment operations supported by the InvestEU fund, European Territorial Cooperation (ETC) projects (also known as Interreg), and new block exemptions for European Innovation Partnership for agricultural productivity and sustainability (EIP) and operational group projects or Community-Led Local Development (CLLD) projects.

The amendments adopted by the Commission will grant more flexibility to design and implement support measures in sectors that are key for the transition to climate neutrality and a net-zero emissions industry. These changes will accelerate investment and financing for clean technology production in Europe, and contribute to the recovery of the European economy, which has been severely affected by COVID-19 and by the economic consequences of the Russian invasion of Ukraine.

ECB and the ESAs call for enhanced climate-related disclosure for structured finance products.

On March 13, 2023 the European Central Bank (ECB) and the European Supervisory Authorities (ESAs) published a Joint Statement calling for the development of harmonized data requirements in climate-related disclosures for structured finance products. The ECB and the ESAs emphasize:

- The need for improved climate-related metrics by stating that securitization transactions are commonly backed by assets exposed to climate-related risks; and
- The lack of climate-related data that hinders both investors' ability to identify climate-related risks and understand the classification of products and services as sustainable under the EU Taxonomy and SFDR frameworks.

The Statement provides details on the current ECB and ESAs regulatory pipeline to promote robust climate-related disclosure requirements and avoiding fragmented information that increases costs and risks for originators, investors, and supervisors. The ECB and ESAs also encourage originators and sponsors to collect the climate-related data needed by investors, even if there are no mandatory disclosure requirements in place yet.

Environmental, Social and Governance (ESG)

Climate-related financial disclosures of the ECB's non-monetary policy portfolios.

On March 23, 2023 the European Central Bank (ECB) published its report regarding climate-related financial disclosures for non-monetary policy portfolios. The report provides quantitative and qualitative climate-related information about the ECB's own funds and staff pension fund. The information covers governance, strategy, risk management, and metrics and targets.

Investment Committee paves way for first InvestEU projects by EBRD to support green mobility and energy.

On March 24, 2023 the InvestEU Investment Committee approved guarantees worth up to around €150 million in the form of framework agreements for the first EBRD operations, which are to follow. This is part of the InvestEU guarantee agreement worth up to €450 million between the European Commission and the EBRD.

The European Bank for Reconstruction and Development (EBRD), backed by the InvestEU programme, will mobilise more than €1.1 billion in financing through direct investments or financial intermediaries to help the EU countries where the EBRD operates to reach their full green potential. It will support investment projects to improve sustainability and minimise environmental impact.

The new financing will boost green and sustainable investments in the municipal, transport and energy sectors to address environmental challenges.

Results of the 2022 climate risk stress test of the Eurosystem balance sheet.

On March 27, 2023 the European Central Bank (ECB) published the results of an inaugural climate stress test conducted on its own balance sheet and those of the 20 EU central banks that use the euro.

According to the results, Eurosystem's corporate bond holding have a similar degree of climate risk compared to the outstanding market for bonds that meet the central banks' eligibility criteria for purchases. Other Eurosystem assets, namely covered bonds and asset-backed securities (ABS), which often employ real estate as collateral or to generate cash, showed an elevated vulnerability under scenarios where no climate policies are introduced resulting in a failed transition, or a Europe-wide flood.

ECB staff included two additional short-term scenarios: a flood risk scenario, and a disorderly scenario that incorporates sharp increases in carbon prices.

The completion of the exercise delivers on a key plank of the ECB's 2021 strategy to integrate climate change into its supervisory activities. The ECB has already made climate a factor in its bond purchases, collateral framework, bank regulatory capital and portfolio disclosures.

EC issued €6 billion of NextGenerationEU green bonds in fourth syndicated transaction for 2023.

On March 28, 2023 the European Commission issued €6 billion of NextGenerationEU green bonds in its fourth syndicated transaction for 2023. The single tranche transaction was executed via a tap of the green bond due on 4 February 2048. Investors demonstrated a strong interest in the transaction, which was over 12 times oversubscribed.

The transaction brings the total volume of NextGenerationEU green bonds issued to date at €42.5 billion. The proceeds of these bonds will be used to finance green projects from the Member States' national Recovery and Resilience plans (RRPs) – the roadmaps to spending under NextGenerationEU. The pool of eligible expenditure for NextGenerationEU green bonds under Member States' RRPs currently stands at €187 billion, with the amount due to increase as further requests for financing are still being submitted.

EC launched the "Regulatory Sandbox" for blockchain technology.

Addressing the risks in crypto: laying out the options

On January 12, 2023 the Bank for International Settlements (BIS) issued a bulletin that addresses the risks from crypto market.

This bulletin briefly summarizes the lessons of the 2022 crypto turmoil. It then outlines three – non-mutually exclusive – lines of action to address the risks in crypto: a ban, containment and regulation, as well as their pros and cons. It also outlines complementary lines of policy action to address inefficiencies in traditional finance (TradFi) and curb the demand for crypto. One key option would be to encourage sound innovation with central bank digital currencies (CBDCs). An online appendix gives a selective overview of ongoing initiatives in crypto regulation.

A few of the key takeaways from the bulletin are presented below:

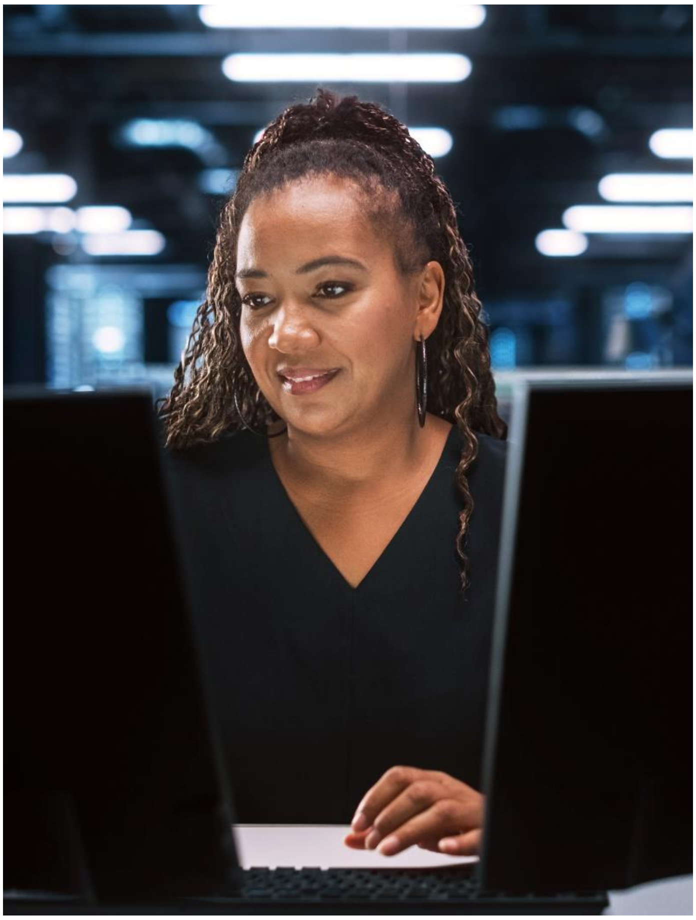
- The debate on the appropriate policy response (including regulatory) to address the risks in crypto has been re-ignited through the recent high-profile failures of FTX and other crypto firms.
- Different -not mutually exclusive- lines of action should be considered by Authorities to address the risks in crypto (e.g., containment or regulation of the crypto sector or an outright ban).
- TradFi should be more attractive. Central banks and public authorities could work to achieve this, through encouragement of sound innovation with CBDCs.

The Technology of DeFi.

On January 19, 2023 the Bank for International Settlements (BIS) published a working paper providing a deep dive into the overall architecture, the technical primitives, and the financial functionalities of decentralized finance (DeFi) protocols.

The authors analyze and explain the individual components and how they interact through the lens of a DeFi stack reference (DSR) model featuring three layers: settlement, applications and interfaces.

The technical aspects of each layer of the DSR model are discussed and the financial services for the most relevant DeFi categories, (e.g., lending protocols, derivatives protocols) are described. Moreover, emphasis is given on how composability allows complex financial products to be assembled. In the last sections of the paper, the authors discuss potential systemic risk sources and conclude by mapping out an agenda for research in the respective area.



FinTech

Launch of the EC's "Regulatory Sandbox" for "blockchain" technology.

On February 14, 2023 the European Commission's "Regulatory Sandbox" for blockchain technology was launched.

In particular, this initiative constitutes a controlled environment, in which businesses are able to test their products and services and cooperate with the relevant regulatory/supervisory authorities. Furthermore, it will allow the relevant regulatory/supervisory authorities to familiarize themselves with blockchain technology and exchange best practices on the subject.

From 2023 to 2026, the European Commission's aforementioned initiative will support 20 projects annually, including cases of the "European Blockchain Services Infrastructure" ('EBSI').

Take-aways from the horizontal assessment of the survey on digital transformation and the use of fintech.

On February 15, 2023 the European Central Bank (ECB) Banking Supervision published the main takeaways of the horizontal assessment of the survey on digital transformation and the use of fintech that was carried out by ECB Banking Supervision and National Competent Authorities (NCAs).

The collected data was derived from banks' self-assessments and was combined with market intelligence initiatives to expand knowledge on this evolving field of expertise. Moreover, ECB Banking Supervision has identified six pillars to shape a framework for supervisors when looking into digital transformation strategies:

- Governance and cooperation
- Investments and resources
- Digital Business
- Use of innovative technologies
- Risks / Challenges
- Digital strategy and KPI steering

According to the information provided in the survey, digital transformation is relevant for all SSM banks, and most of them already have a digital transformation strategy in place. In addition, it was noted that there is a high degree of heterogeneity in banks' submissions and further dialogue is needed to validate them.

Insurance

Industry groups call on MEPs to ensure AI Act is risk-based and facilitates innovation in Europe. Also, EIOPA launched new survey to map financial innovation in insurance.

Industry welcomes EFRAG's first set of ESRS; calls for refinements.

On January 16, 2023 Insurance Europe and the European CFO Forum published a set of joint key messages on the European Financial Reporting Advisory Group's (EFRAG) technical advice on the first set of European Sustainability Reporting Standards (ESRS).

EFRAG's first set of proposed standards is a considerable achievement given the ambitious timetable and the scope which covers all ESG areas. The final advice is also a considerable improvement on the initial exposure draft versions published for consultation before the summer.

The associations welcomed the fact that the disclosure requirements have been refined and have been focused on important disclosures and data points. It is also positive that the final proposed ESRS include phase-in provisions to allow time for data availability throughout value chains.

The associations also welcomed the fact that the concept of 'rebuttable presumption', which would have been very burdensome, was removed and replaced by a company specific materiality assessment with certain data points being mandatory, such as Sustainable Finance Disclosure Regulation (SFDR) related information. This is a better approach, so that an undertaking reports on disclosures/data points that are material (following double materiality).

However, European insurers would like to raise several points which still need consideration:

- The need for clarity on value chain definition for financial institutions during 2023 to allow companies to start implementation processes.
- The fact that interoperability with the International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards (SDS) is crucial to ensure that, by complying with the ESRS, companies also comply with the IFRS SDS.
- The need for insurers that are defined as Low-Risk Profile Undertakings under Solvency II to be subject to simplified SME reporting requirements, in line with the existing Corporate Sustainability Reporting Directive provisions for small non-complex banks.
- The need for implementation guidance and support by EFRAG and the EC to companies applying the standards.

Risk Dashboard points to overall resilience in insurance despite high macro and market risks.

On February 07, 2023 the European Insurance and Occupational Pensions Authority (EIOPA) published its Risk Dashboard based on Solvency II data from the third quarter of 2022. The results show that insurers' exposures to macro and market risks are currently the main concern for the insurance sector. All other risk categories, such as profitability and solvency, climate as well as digitalisation and cyber risks stay at medium levels.

EIOPA's consultation on changes to the minimum amount of professional indemnity insurance cover and financial capacity intermediaries need under IDD.

On February 09, 2023 the European Insurance and Occupational Pensions Authority (EIOPA) published a consultation relating to the draft amendment to the regulatory technical standards (RTS) adapting the amounts for the professional indemnity insurance (PII) cover and financial capacity insurance intermediaries under the Insurance Distribution Directive (IDD). Under IDD, EIOPA is required to review the minimum amounts every five years.

Insurance

IDD requires that any changes to the minimum amounts be based on the rate of inflation. Based on inflation between 2018 and 2022, the base amounts will be:

- The base PII amount applying to each claim is to increase from €1,300,380 to €1,564,610 (an increase of €264,230).
- The base aggregate PII amount per year is to increase from €1,924,560 to €2,315,610 (an increase of €391,050).
- The base financial capacity amount is to increase from €19,510 to €23,480 (an increase of €3,970).

EIOPA invited stakeholders to provide feedback on the consultation via its online survey up until 6 May 2023, with the view to submitting its draft RTS to the Commission by 30 June 2023.

Industry groups call on MEPs to ensure AI Act is risk-based and facilitates innovation in Europe

On February 23, 2023 a group of industry representatives – including Insurance Europe - published a statement calling on the European Parliament to ensure that its position on the European Commission's proposed Artificial Intelligence (AI) Act would support innovation and the uptake of the use AI in Europe. The signatories are concerned that negotiations in the Parliament will deviate from the AI Act's original proposal and goals to establish a risk-based approach to AI.

Specifically, the signatories urged MEPs to ensure that the AI Act:

- Includes in Annex III only use-cases that are truly high-risk;
- Uses a definition of AI that is recognised by industry, is in line with OECD work, and does not include non-AI tools;
- Maintains the risk-based approach of the original proposal while defining "high-risk" in a way that reflects it;
- Allocates responsibilities properly along the value chain and allows contractual freedom to do so;
- Establishes legal certainty for the extraterritorial application of the Act's scope and effect on the EU's international partners;
- Does not overlap or create competing obligations with existing legislation; and
- Avoids uncertainty for further investment, trade, and innovation.

EIOPA launched new survey to map financial innovation in insurance.

On March 06, 2023 the European Insurance and Occupational Pensions Authority (EIOPA) launched a new Digitalisation Market Monitoring Survey to monitor the development of European insurers' digital transformation strategies and better understand how undertakings use or plan to use innovative business models and technologies. The survey will gather information on the use of financial innovation in the European insurance sector, including the spread of new business models such as digital distribution and communication channels as well as insurers' partnerships with start-ups and big techs. The survey will also assess the level of deployment of new technologies such as blockchain and artificial intelligence and the governance measures that insurers are adopting around them. EIOPA will use the findings to strengthen its evidence- and risk-based supervisory approach to detect any emerging risks for insurers and consumers and to identify potential regulatory obstacles that keep stakeholders from harnessing the benefits of financial innovation.

Sustainability risks: Insurers stress importance of maintaining risk-based nature of Solvency II.

On March 08, 2023 Insurance Europe responded to a discussion paper by the European Insurance and Occupational Pensions Authority (EIOPA) on the prudential treatment of sustainability risks. European insurers strongly support the drive towards sustainability and are ready to build on their current actions to contribute further to the transition to a more sustainable society.

The industry is supportive of EIOPA receiving a mandate from the EC, in the context of the Solvency II 2020 review, to determine if there is evidence, based on available data, to justify a differential prudential treatment of exposures related to environmental, social and governance (ESG) assets or activities.

It is important to pursue a risk and evidence-based approach to fulfil the mandate in order to maintain Solvency II's risk-based nature. EIOPA raises valid, yet challenging to answer questions in the discussion paper, due to the unstable, scarce and not sufficiently standardised data available in this area. In particular, the isolation of the sustainability element from other (non)economic parameters and subjective influences in the constantly changing environment will be ambitious and difficult.

Insurance

The industry suggests being cautious and to avoid taking an overly theoretical and complex approach. There are many uncertainties involved and the chosen assumptions and approach will heavily impact the outcomes. Therefore, any results should be interpreted with the necessary caution, and conclusions or actions based on the results should be approached with care. Furthermore, any work in this area should also be proportionate and feasible for smaller, non-complex insurers.

New GFIA report identifies trillion-dollar global protection gaps.

On March 15, 2023 the Global Federation of Insurance Associations (GFIA) published a report that has identified and quantified the most significant - and growing - annual global protection gaps: US$1trn for pensions; US$0.9trn for cyber; US$0.8trn for health and US$0.1trn for natural catastrophes. The report identifies the factors driving these protection gaps both on the demand and the supply side, including why certain risks can be very difficult to insure completely. The report also provides an overview of the wide range of potential levers that can be used by a broad variety of stakeholders to address the gaps.

Moreover, the report uses a range of case studies to demonstrate the private and/or public policy actions that have been taken to reduce protection gaps. It also includes GFIA's own recommendations to policymakers of the best levers to use to reduce risk and increase protection.

IASB proposed narrow-scope amendments to classification and measurement requirements for financial instruments.

On March 21, 2023 the International Accounting Standards Board (IASB) published an exposure draft proposing amendments to the classification and measurement requirements in IFRS 9 Financial Instruments. The proposed amendments respond to feedback received from a post-implementation review of the classification and measurement requirements in IFRS 9, which concluded in December 2022. Feedback from that review indicated that most stakeholders believed those requirements achieved their intended purpose, whilst identifying specific areas for further enhancement or clarification. In response to feedback received, the exposure draft's proposed amendments include:

- Clarifying the classification of financial assets with environmental, social and corporate governance (ESG) and similar features; and
- Settlement of liabilities through electronic payment systems.

EIOPA explores nature-related risks and their impact on insurers in staff paper

On March 29, 2023 the European Insurance and Occupational Pensions Authority (EIOPA) published a staff paper on nature-related risks – such as biodiversity loss and damage to ecosystems – and their relevance to insurance.

Protecting nature's biodiversity and ecosystems has in recent years emerged as an important aspect in the fight against climate change. The failure to account for, mitigate and adapt to the consequences of nature loss can have economic implications that may put overall financial stability at risk.

In this context, EIOPA believes it is important to gain a better understanding of how nature-related risks can affect (re)insurers and to examine ways in which the insurance sector can meaningfully contribute to the conservation and restoration of nature through investments and underwriting activity.

The staff paper describes how nature-related risks can translate into risks for (re)insurers' assets and liabilities. The paper sets out a framework to identify key areas in supervisory and regulatory activity that require attention when addressing nature-related risks and their impacts on the insurance sector.

ESMA updated its guidance on product governance.

ESMA updated its guidance on product governance.

On March 27, 2023 the European Securities and Markets Authority (ESMA) published its final report on guidelines on MiFID II product governance guidelines. The main amendments introduced to the guidelines concern:

- the specification of any sustainability-related objectives a product is compatible with;
- the practice of identifying a target market per cluster of products instead of per individual product ("clustering approach");
- the determination of a compatible distribution strategy where a distributor considers that a more complex product can be distributed under non-advised sales;
- the periodic review of products, including the application of the proportionality principle.

Risk Management

EBA launched 2023 EU-wide stress test.

Ratings & Credit Risk

EBA Risk Dashboard shows that capital and liquidity ratios remain robust.

On January 12, 2023 the European Banking Authority (EBA) published its quarterly Risk Dashboard together with the results of the autumn edition of the Risk Assessment Questionnaire (RAQ). The risk dashboard reveals that capital and liquidity ratios remain robust for the majority of banks while funding costs are an increasing concern and the asset quality expectations have deteriorated according to the RAQ. Banks engaged in green lending have been using the European Union Taxonomy, which is the leading standard for banks that originate or are planning to originate green loans. The assessment also reveals that the share of banks stating to have issued green bonds remains significantly higher (75%) compared to other sustainability funding instruments.

The liquidity coverage ratio of EU banks declined in the first half of 2022 but is still well above the minimum requirement.

On January 13, 2023 the European Banking Authority (EBA) published its report on liquidity measures, which monitors and evaluates the liquidity coverage requirements currently in place in the EU. The liquidity coverage ratio (LCR) declined to 166% in June 2022. The fall was due to an increase in outflows driven by higher interest rates and volatility which led to a decline in asset prices during the first half of the year. The evolution of banks' LCR levels is particularly relevant given the uncertain economic outlook with high levels of inflation and the process of normalisation of the monetary policy. EU banks hold materially lower liquidity buffers in foreign currencies, particularly the USD, which requires enhanced monitoring by banks and supervisors to avoid excessive vulnerability to disruptions in the foreign exchange markets.

EBA launched 2023 EU-wide stress test.

On January 31, 2023 the European Banking Authority (EBA) launched the 2023 EU-wide stress test and released the macroeconomic scenarios. This year's EU-wide stress test is designed to provide valuable input for assessing the resilience of the European banking sector in the current uncertain and changing macroeconomic environment. The adverse scenario is based on a narrative of hypothetical heightened geopolitical tensions, with high inflation and higher interest rates having strong adverse effects on private consumption and investments, both domestically and globally. In terms of GDP decline, the 2023 adverse scenario is the most severe used in the EU wide stress up to now. The severe nature of the adverse scenario reflects a deliberate choice and reflects the purpose of the stress test exercise, which is to assess the resilience of the European banking system to a hypothetical severely deteriorated macro-environment. The EBA expects to publish the results of the exercise at the end of July 2023.

EBA published Handbook on data submission for supervisory benchmarking.

On March 16, 2023 the European Banking Authority (EBA) published a Handbook on supervisory benchmarking of internal models. The Handbook is an online tool that provides guidance and links to relevant documents and information for the supervisory benchmarking to facilitate their accessibility. In particular, the Handbook includes overviews for all applicable Q&As relevant to credit risk, market risk and IFRS9 benchmarking. More detailed information is also provided for the key credit risk elements of the data submission. The Handbook will be regularly updated.

Risk Management

Recovery / Resolutions

EBA published its annual quantitative monitoring report on MREL complemented by a related impact assessment.

On January 16, 2023 the European Banking Authority (EBA) published its annual quantitative report on minimum requirement for own funds and eligible liabilities (MREL) with data as of December 2021. The report is complemented by an analysis looking into the impact of the MREL framework on a number of relevant dimensions. As of 31 December 2021, the EBA estimated that 70 banks reported an MREL shortfall of EUR 33bn out of a sample of 245. This is down by 42% compared to last years' quantitative report on MREL on a comparable basis. The report shows progress in closing MREL shortfalls, albeit at a lower rate for smaller banks, and concludes that the impact of MREL on banks' profitability is manageable, although heterogeneous across types of banks and Member States.

SRB, EBA and ECB Banking Supervision statement on the announcement on 19 March 2023 by Swiss authorities.

On March 20, 2023, the Single Resolution Board (SRB), the European Banking Authority (EBA) and ECB Banking Supervision published a statement about the comprehensive set of actions taken by the Swiss authorities in order to ensure financial stability.

The European banking sector is resilient, with robust levels of capital and liquidity. The resolution framework implementing in the European Union the reforms recommended by the Financial Stability Board after the Great Financial Crisis has established, among others, the order according to which shareholders and creditors of a troubled bank should bear losses.

In particular, common equity instruments are the first ones to absorb losses, and only after their full use would Additional Tier One be required to be written down. This approach has been consistently applied in past cases and will continue to guide the actions of the SRB and ECB banking supervision in crisis interventions. Additional Tier 1 is and will remain an important component of the capital structure of European banks.

Risk-Weighted Assets

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

On March 10, 2023 the European Banking Authority (EBA) published its reports on the annual market and credit risk benchmarking exercises conducted in 2022. These exercises aim at monitoring the consistency of risk weighted assets (RWAs) across all EU institutions authorised to use internal approaches for the calculation of capital requirements. Regarding market risk, for the majority of participating banks, the results confirm a relatively low dispersion in the initial market valuation (IMVs) of most of the instruments, and a decrease in the dispersion in the value at risk (VaR) submissions compared to the previous exercise. For credit risk, the variability of RWAs remained rather stable, despite the pandemic and the different banks' pace in complying with the policies set out in the EBA internal rating-based (IRB) roadmap. A particular focus has been put on analysing the impact of the pandemic and the compensating public measures on the IRB models.

Surveys and Statistics

ECB published the January 2023 euro area bank lending survey.

On January 31, 2023 the European Central Bank (ECB) published the January 2023 euro area bank lending survey. According to the survey: i) substantial tightening in credit standards for all loan categories, ii) loan demand from firms decreased as interest rates continued to rise and financing needs for fixed investment fell, and iii) demand for housing loans decreased strongly owing to rising interest rates, low consumer confidence and deteriorating housing market prospects.

Risk Management

Other General aspects

BIS: Global financial cycle and liquidity management.

On January 25, 2023 the Bank for International Settlements (BIS) published a paper which provides a different perspective on how emerging market economies can protect themselves from the ebb and flows of the global financial cycle. The analysis is motivated by the observation that advanced economies also experience highly volatile capital inflows but are more resilient to them because of offsetting movements in capital outflows. In other words, when foreigners invest in advanced economies, local residents invest money abroad. And when foreign investors leave advanced economies, local residents repatriate their funds from abroad.

ECB's Banking Supervision: Strong risk culture - sound banks.

On February 15, 2023 the ECB's Banking Supervision published an article regarding banks' progress in improving risk culture. While there are many components of risk culture, this article focusses on three key dimensions: the tone from the top, incentive policies, and risk accountability and ownership. Weaknesses in risk culture may signal problems in the future, such as financial losses or misconduct. Conversely, a bank's strong financial position could be misleading if there is an underlying problem with culture and conduct. Therefore, even in periods of solid financial health, strong risk culture can be essential in preventing future losses which could damage the reputation of a bank.

EBA published new set of indicators to identify potential causes of consumer harm.

On March 28, 2023 the European Banking Authority (EBA) published, for the first time, a new set of indicators, which aim at identifying detriment to consumers arising from the misconduct of financial institutions offering retail banking products in the EU. The indicators show consumers' experience with financial services and will complement other sources of information that the EBA already uses to decide on its consumer protection priorities.

These indicators cover the banking products in the EBA's consumer protection scope, and include mortgage credit, consumer credit, deposits, payment accounts and payment services. The indicators are meant to measure the retail risks encountered by consumers, i.e., the potential detriment suffered in the context of the business relationship between consumers and their product/service providers.

The indicators provide information that will help the EBA and national competent authorities to prioritise their regulatory and supervisory work in the area of consumer protection but may be of interest to other, external stakeholders as well.

Other

ECB published its annual report on supervisory activities for 2022.

2022 IFC Annual Report.

On January 09, 2023 the Bank for International Settlements (BIS) published the 2022 Annual Report of the Irving Fisher Committee on Central Bank Statistics (IFC). The Report provides an update on the IFC's governance and a review of its main workstreams, taking into account planned initiatives.

Some important developments for the IFC include the decision to host the central bank network on historical monetary and financial statistics (HMFS) and the endorsement by the G20 of the international cooperation framework under the Data Gaps Initiative (DGI). In addition, IFC member central banks and the BIS have been actively participating in the ongoing revision of the international statistical manuals.

During 2022 the Committee continued to update its web page for Covid-19 statistical resources, which details related official projects and relevant experiences. Moreover, the IFC furthered its analyses of the use of big data in central banks and on the contribution of machine learning (ML). The Committee has set up recurrent workshops on "Data science in central banking" to review developments in the big data ecosystem and the ongoing adoption of data analytics.

In respect to Fintech, IFC continues to work on documenting how fintech is transforming the financial landscape. Finally, the IFC launched several initiatives on sustainable finance in 2022, including a publication on the development of statistics in the environmental, social and governance (ESG) area.

Act of the Executive Committee of the BoG on the framework for the issuance and supervision of covered bonds.

On February 09, 2023 the Executive Committee Act 215/1/03.02.2023 of the Bank of Greece (BoG) was published in the Government Gazette (Government Gazette B' 616). The aim of the Act is to specify the context of issuance and supervision of covered bonds.

Publication by the EPC of documentation regarding payment systems in a SEPA environment.

On February 16, 2023 the Hellenic Banking Authority issued an announcement in respect to three (3) documents regarding payment systems in a SEPA environment that were published on the European Payment Council (EPC) website.

The first document is a Clarification Paper on the Use of Slashes in References, Identifications and Identifiers. The purpose of this document is to clarify the impact of the aforementioned rule on 'references, identifications and identifiers' related ISO 20022 data elements used in pain.001, pain.007 and pain.008 messages of the SEPA (Instant) Credit Transfer (SCT/SCT Inst) and SEPA Direct Debit Core/B2B (SDD) Implementation Guidelines.

Moreover, the second document is a Recommendation on ISO 20022 Customer Reporting of SCTs and SDDs. This document includes a mapping of the rulebook requirements vis-à-vis the 'Transaction Details' message elements of the ISO 20022 reporting messages.

In respect to the third published document, it provides guidelines to SEPA payment scheme participants and to payment endusers using ISO 20022 standard-based XML messages for the initiation and/or the acceptance of SEPA (Instant) Credit Transfer (SCT (Inst)) and SEPA Direct Debit (SDD) transactions in the Customer to-Payment Service Provider (C-to-PSP) space and/or the PSP-to-Customer (PSP-to-C) space.

FSB details actions for the next phase of the G20 Roadmap for Enhancing Cross-border Payments.

On February 23, 2023 the Financial Stability Board (FSB) published a report setting out priority actions for achieving the G20 targets for enhancing cross-border payments.

The report includes the lessons learnt during the first two years of the Roadmap for Enhancing Cross-border Payments, such as feedback from stakeholders. It also sheds light on the next phase of work that is categorized on three interrelated priority themes:

Other

- Payment system interoperability and extension, which focuses on the extension of Real Time Gross Settlement systems operating hours and access policies as well as improving payment system interoperability.
- Legal, regulatory and supervisory finalizing frameworks, which emphasizes on the promotion of an efficient legal, regulatory and supervisory environment for cross-border payments while maintaining integrity, security and safety.
- The facilitation of cross-border data exchange and increase in the use of standardised messaging formats for cross-border payments.

To implement the above, the FSB and Committee on Payments and Market Infrastructures (CPMI) will convene two industry taskforces. Technical assistance will also be provided by the International Monetary Fund (IMF) and World Bank to jurisdictions beyond the G20.

SEPA Request-to-Pay Implementation Guidelines Version 3.0.

On March 03, 2023 the European Payments Council (EPC) published version 3.0 of the Single Euro Payments Area (SEPA) Request-to-Pay (SRTP) Implementation Guidelines (IGs). These IGs set out the rules for implementing the relevant ISO 20022 XML message standards based on version 3.0 of the SRTP scheme rulebook, which takes effect on 30 November 2023.

Three separate IG documents have been created covering SRTP related messages in the:

- Payee to Payee's RTP Service Provider space (in both directions);
- Inter-RTP Service Provider space (in both directions);
- Payer to Payer's RTP Service Provider space (in both directions).

EC raised a further €6 billion in its third syndicated transaction for 2023.

On March 07, 2023 the European Commission raised a further €6 billion of EU-Bonds in its third syndicated transaction for 2023. The single tranche transaction consisted of a bond due on 4 July 2034. Investor demand for EU-Bonds remained strong, with the transaction drawing bids of over €54 billion in aggregate, making for an oversubscription rate of about 9 times.

EBA: Women's representation on boards has gradually improved, but imbalances remain.

On March 07, 2023 the European Banking Authority (EBA) published its report on diversity practices and the gender pay gap at the level of the management body. The report highlights the following:

- 27.75% of non-executive directorships are held by women.
- Only 18.05% of executive directors are female.
- Gender balance in northern and eastern Europe is generally better than in other parts of the EU.
- 27.05% of institutions still lack the mandatory diversity policy.
- A clear positive correlation between gender balance and return on equity exists.
- Women earn on average 9.48% less than male executive directors and 5.90% less than male non-executive directors.

The data presented in this report make clear that further improvements of gender balance and, more generally, of diversity at institutions' management bodies are needed.

Henceforth, further work by institutions is needed to overcome the identified shortcomings. All institutions must adopt a diversity policy and many need to improve the gender diversity of their boards in the short to medium term, including through the setting of appropriate gender balance targets.

Fiscal policy guidance for 2024: Promoting debt sustainability and sustainable and inclusive growth.

On March 08, 2023 the European Commission provided guidance to Member States on the conduct and coordination of fiscal policy for next year. This guidance comes as discussions on the future economic governance framework are ongoing. Overall, fiscal policies in 2024 should ensure medium-term debt sustainability and promote sustainable and inclusive growth in all Member States.

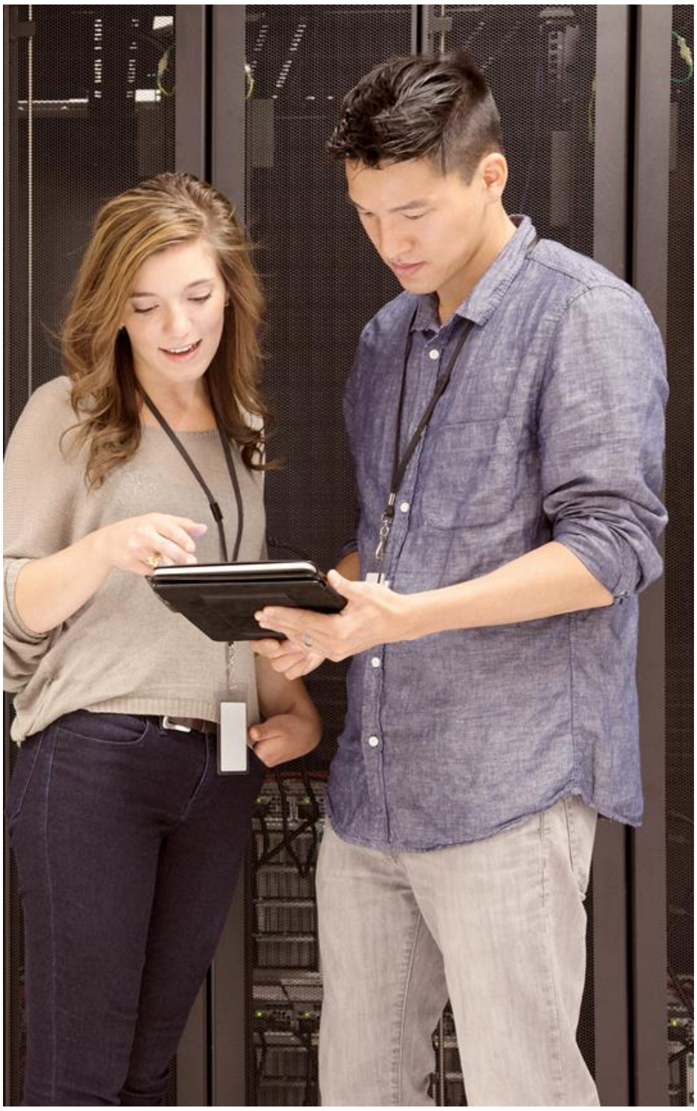
Other

EBA issued revised list of validation rules.

On March 10, 2023 the European Banking Authority (EBA) issued a revised list of validation rules for its reporting standards (Implementing Technical Standards, Regulatory Technical Standards and Guidelines), highlighting those which have been deactivated either for incorrectness or for triggering IT problems. Competent Authorities throughout the EU are informed that data submitted in accordance with these reporting standards should not be formally validated against the set of deactivated rules.

ECB Annual Report on supervisory activities 2022.

On March 21, 2023 the European Central Bank (ECB) published its annual report on supervisory activities for 2022. According to the report, ECB Banking Supervision remained agile, consistent and prudent in 2022 as banks faced a challenging environment marked by the tail end of the pandemic, Russia's war in Ukraine and rising interest rates.



Appendix: Glossary

AANA

Aggregate Average Notional Amount

AML/CFT

Anti-Money Laundering and Countering the Financing of Terrorism

AI

Artificial Intelligence

AISPs

Account Information Service Providers

AIFMD

Alternative Investment Funds Market Directive

BCBS

Basel Committee on Banking Supervision

BIS

Bank of International Settlements

BMR

EU Benchmark Regulation

CDD

Customer Due Diligence

CRD IV

Capital Requirements Directive IV

DGSs

Deposit Guarantee Schemes

DLT

Distributed Ledger Technology

DRSP

Data Reporting service providers

AISPs

Account Information Service Providers

EBA

European Banking Authority

ECON

Economic and Monetary Affairs Committee

EIOPA

European Insurance and Occupational Pensions Authority

EP

European Parliament

ESAs

European Supervisory Authorities

ESG

Environmental, Social and Governance

FICC

Fixed Income Clearing Corporation

GAR

Green Asset Ratio

IOSCO

International Organization of Securities Commissions

IAS

International Accounting Standards

IFRS

International Financial Reporting Standards

Appendix: Glossary

IT
Information Technology

ITS
Implementing Technical Standards

IOSCO
International Organization of Securities Commissions

LCR
Liquidity Coverage Ratio

LIBOR
London Inter-Bank Offered Rate

MiCA
Markets in Crypto Assets

NPEs
Non-Performing Exposures

NPL
Non-Performing Loans

P2B
Platform to Business

PISPs
Payment Initiation Services Providers

RTS
Regulatory Technical Standard

RegTech
Regulatory Technology

RWAs
Risk weighted assets

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

SFTR
Securities Financing Transactions Regulation

SFT
Securities Financing Transactions

SupTech
Supervisory Technology

OTC
Over-the-Counter

We are here to support you

Grant Thornton is one of the world's leading organisations of independent assurance, tax and advisory firms, with more than 68,000 people in 145 countries. These firms are here to make business more personal and build trust in to every result. Grant Thornton in Greece is a leading provider of audit, tax and advisory services, with 4 offices in Greece (Athens, Thessaloniki, Heraklion-Crete and Ioannina) and more than 1000 people, we offer strong technical guidance and breadth of experience to ensure that clients receive a truly different experience.

Our approach is built on genuine interest for our clients, on understanding of the unique challenges they face and the commitment to their ambitions and strategy for growth. Our collaborative style also enables us to assemble teams with a broader perspective – working across service lines, industry teams and geographies to tailor our capabilities for our clients.

Our clients demonstrate a high level of satisfaction and loyalty, with an NPS (Net Promoter Score) of 80%, one of the highest among Grant Thornton member-firm network in over 145 countries. The efficient structure and presence of Grant Thornton globally, coupled with a deep understanding of both local and global dynamics, bring Grant Thornton in Greece at the forefront of today’s business landscape as one of the fastest-growing professional services firm in our country.

We are happy to assist with queries you may have and any other issue you would like to discuss with us. For more information contact our Financial Services Risk & Regulatory Team:

FSRegulatory@gr.gt.com

Grant Thornton