Finalyse

REGULATORY BRIEF
APRIL 2024

Finalyse

A fresh take on
risk and valuation

Our purpose

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

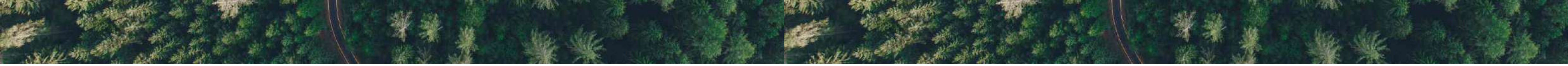
Regulatory Brief

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

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

Data: 1 January 2024 to 31 March 2024

Contents

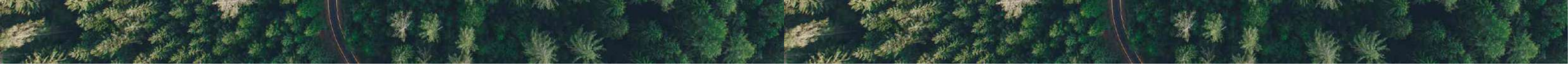


Abbreviations

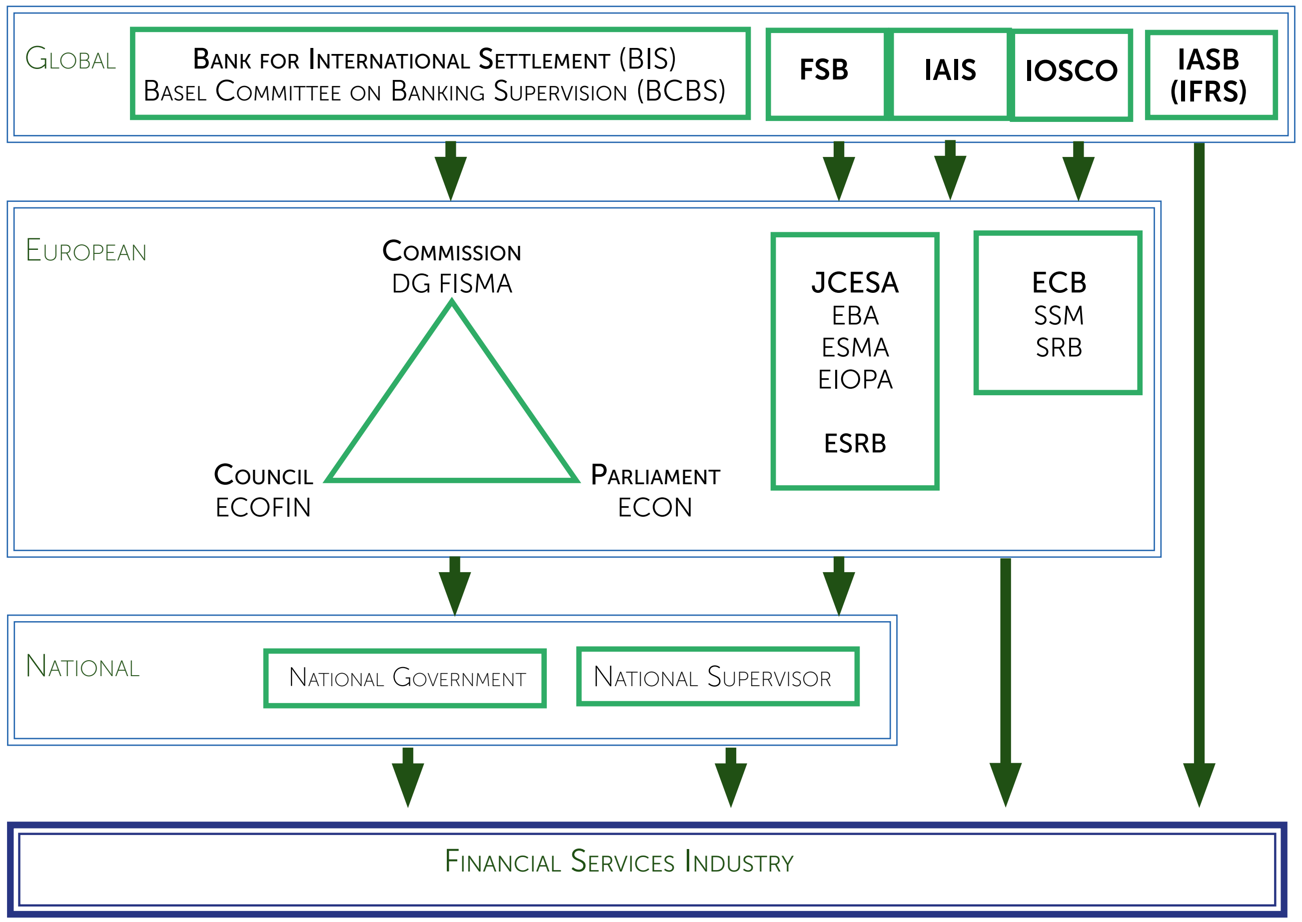
AIFMD	Alternative Investment Fund Managers Directive
AMA	Advanced Measurement Approach
AML	Anti-Money Laundering
AT1	Additional Tier 1
BCBS	Basel Committee on Banking Supervision
BIS	Bank of International Settlements
BMR	Benchmarks Regulation
BRRD	Bank Recovery and Resolution Directive
CCP	Central Counterparty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

Abbreviations

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



Institutional Framework



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

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

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

Regulatory Calendar

2024 Q2

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

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

CRR
ITS
Peer review on definition of default
Document release: tbd

2024 Q3

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

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

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

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

2024 Q4

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

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

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

2025 Q1

CRR
Regulation
Most of CRR 3 provisions are intended to come into force
Application date: 01 Jan 2025

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

2026 Q2

AIFMD 2
Directive
Application of the new Amending Directive to the AIFMD.
Application date: 16 April 2026

2028 Q1

Basel
Standards
Basel IV capital floor implementation end postponed from 01 Jan 2027
Implementation deadline: 1 Jan 2028

Explanatory Note & Legend

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

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

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

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

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

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

Click on these links to open the original documents

Climate Risk

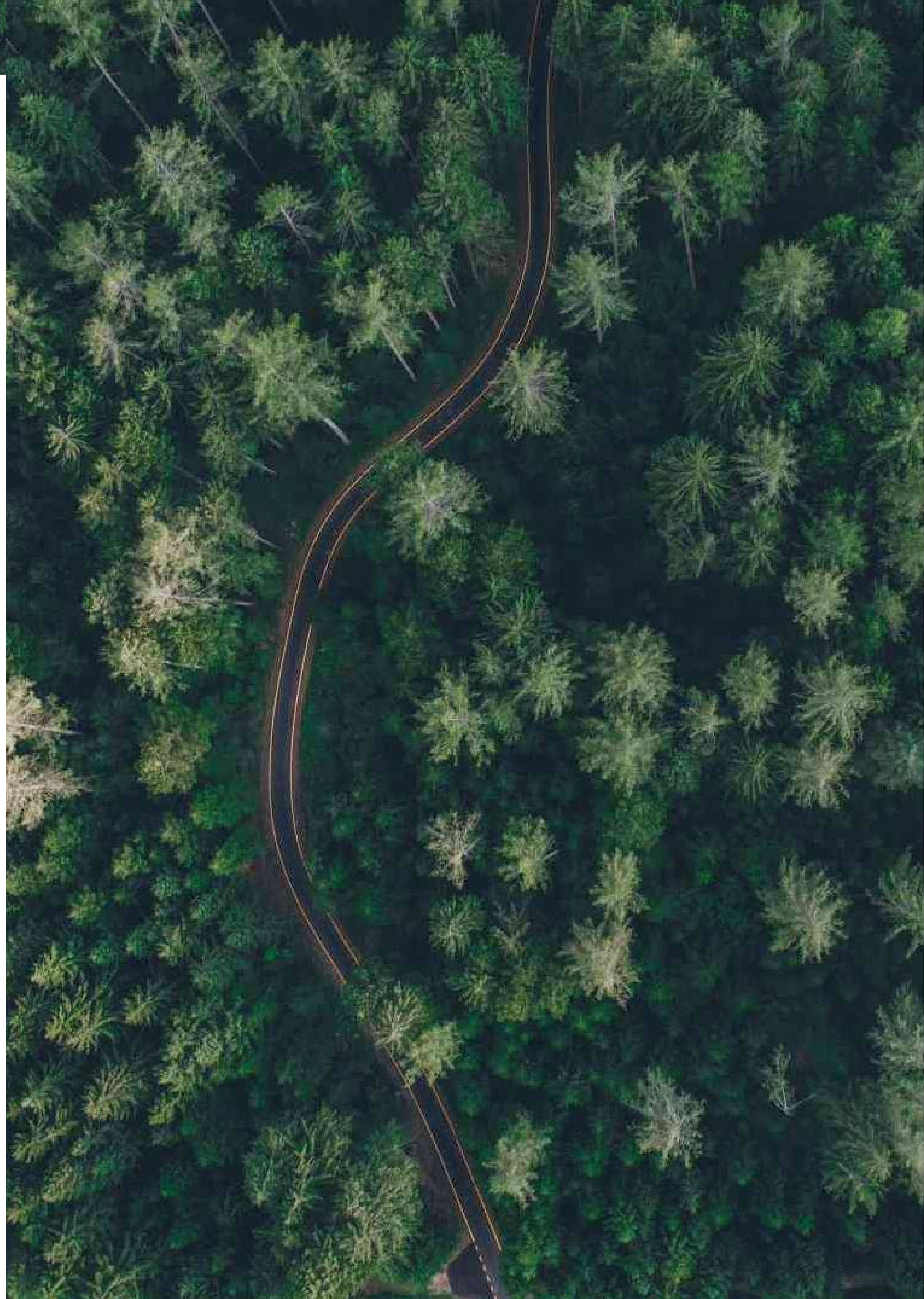
EIOPA (Consultation Paper)

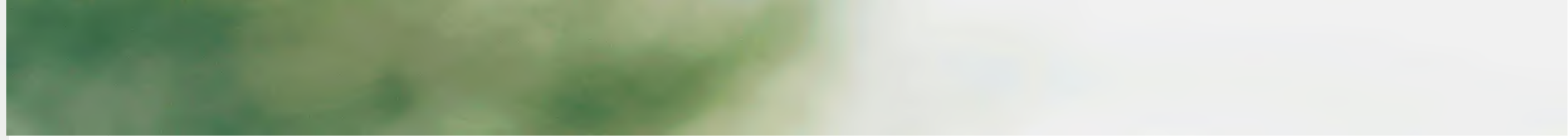
Prudential treatment of Sustainability Risks

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

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

eiopa.europa.eu





Banking

Banking Regulatory Timeline

2024 Q2

CRR
Guidelines
Phase-in requirements for addressing data gaps in the monitoring of already existing credit facilities
Application date: 30 Jun 2024

ITS
Preparation of 2025 benchmarking portfolios – update of ITS
Document release: tbd

Peer Review
Peer review on definition of default
Document release: tbd

Report
On Funding plans and on Asset encumbrance
Document release: tbd

Report
JC autumn risk report
Document release: tbd

Guidelines
GL specifying the methodology institutions shall apply to estimate IRB-CCF
Document release: tbd

RTS
Update RTS on Own funds and eligible liabilities and RTS on methods of consolidation, where needed, depending on CRR III amendments
Document release: tbd

RTS
On extraordinary circumstances for being permitted to continue using the IMA and on material extensions and changes under the IMA
Document release: tbd

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

Report
JC Spring risk report
Document release: tbd

Report
2023 benchmarking report on market risk models
Document release: tbd

Guidelines
On group capital test
Document release: tbd

2024 Q3

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

RTS
To specify the systemic importance indicators
Document release: tbd

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

2024 Q4

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

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

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

2025 Q1

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

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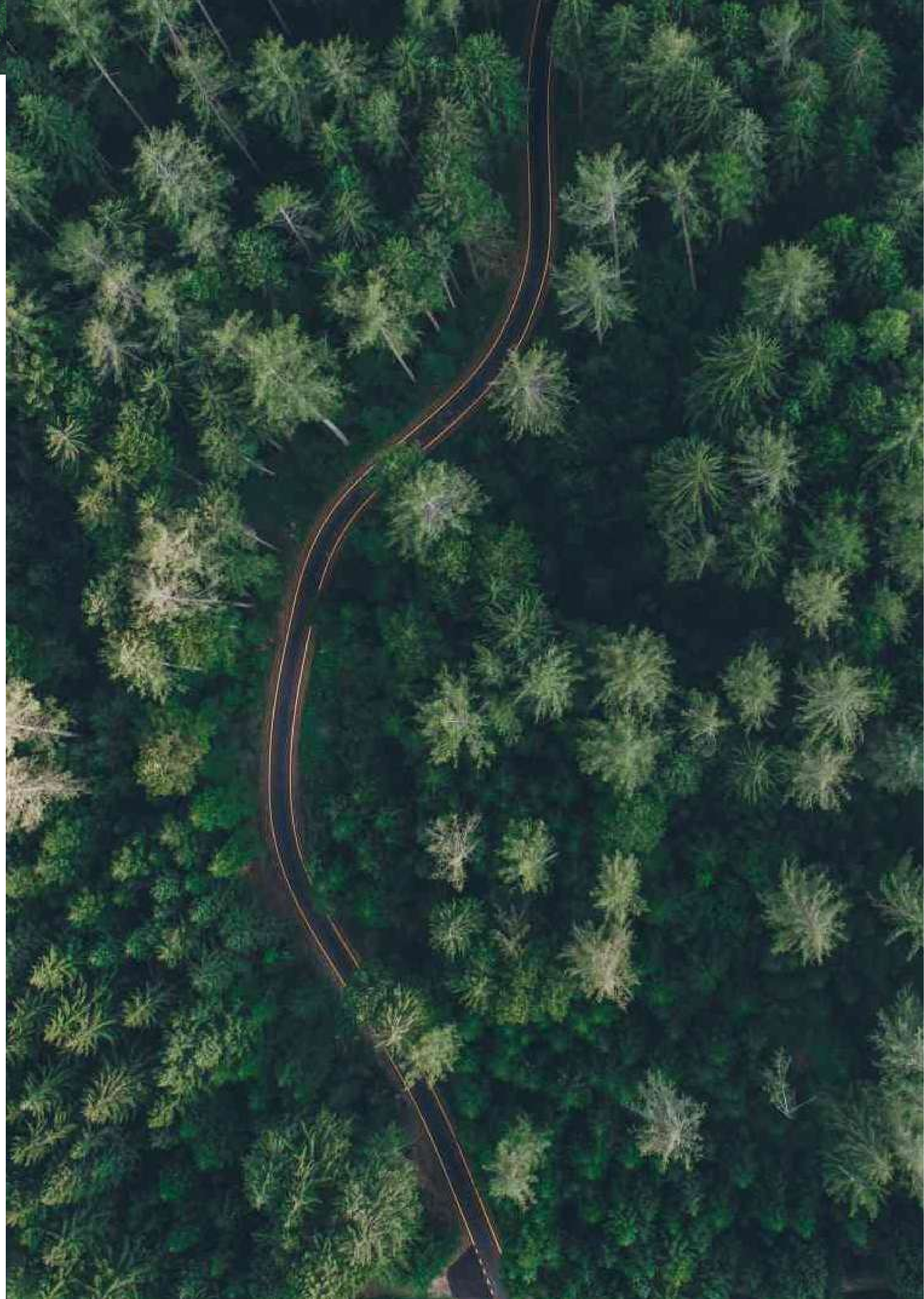
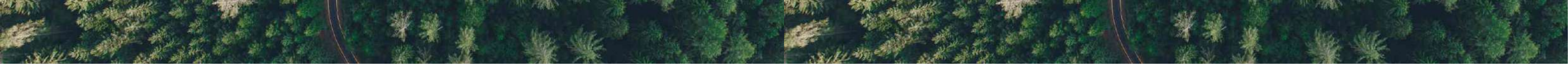




ARTICLE

CRR3 Output Floor impact on Securitisation efficiency

Written by Mael Kerbaul, Senior Consultant.

The regulatory treatment of securitisation has been the matter of intense discussions over the past months. Participants worry that CRR3 implementation would reduce the attractiveness of securitisation and even question its economic viability. Essential tool for funding, risk transfer and balance-sheet management, the beneficial role of securitisation to the real economy is widely recognized and acknowledged, by the European regulator itself[1].

However, the European securitisation market severely declined since the 2008 financial crisis[2] and remains underdeveloped compared to similar markets in other parts of the world. Among other reasons, a too restrictive regulation is often pointed out as a main factor of these poor performance. In this context, while the EU Securitisation Framework in force since 2019 will remain untouched by CRR3, the introduction of the Output Floor will add another layer of conservatism to the securitisation treatment.

The Output Floor, that aims to limit the benefits of using internal models to measure capital requirements for banks, will significantly reduce the securitisation efficiency to free up capital. Although the last amendments adopted after the trialogue discussions in 2023 comprise transitional arrangements that will smoothen the impact of the Output Floor on securitised positions, worries are persisting for the long-term efficiency of newly issued programs that are typically planned to produce effects over several years. In this article we will explore in detail the mechanisms affecting securitisation efficiency under CRR3.

1 See the 2022 Report from the Commission to the European Parliament and the Council on the functioning of the Securitisation Regulation: “This tool, therefore, makes a significant contribution to a well-functioning financial system that efficiently finances the real economy, as it frees up capacity on banks' balance sheets, which enables them to provide new credit to businesses, including small and medium-sized companies. It acts as an important tool for capital, liquidity and risk management in banks.”

2 See 2023 article from ESMA ESMA provides overview of EU securitisation markets

I – Minimum capital requirements for securitised positions

The Capital Requirements Regulation (“CRR” – Reg. EU No 575/2013, Chapter 5, Title II, Part Three), amended by the “New Securitisation Framework” (Reg. EU 2017/2401), applicable since 2019, defines three methods to calculate the minimum capital requirements for securitised positions:

1. The Securitisation Internal Ratings Based Approach (SEC-IRBA)
2. The Securitisation Standardised Approach (SEC-SA)
3. The Securitisation External Ratings Based Approach (SEC-ERBA)

For each approach, the CRR employs different methodologies for risk-weighted assets (RWA) computation, with different parameter levels, risk weight floors and treatments for STS (Simple, Transparent and Standardised) securitisations. More details about the EU Securitisation Framework are discussed in our article Finalyse: The EU Securitisation Framework from March 2022.

These three methods will remain applicable and unchanged by CRR3 amendments. However, for the purpose of the Output Floor computation, CRR3 prescribes to use either the SEC-SA or, when eligible, the SEC-ERBA approaches (Article 92(5)), which are much more penalizing than the SEC-IRBA.

II – Drivers of the risk weight functions for securitisation

The risk weight functions for securitisation exposures are defined in Articles 259 to 262 of the CRR.

The main drivers for the risk weight of the senior tranche are the capital charge of the underlying pool (KIRB or KSA), the tranche thickness (measured through the attachment and detachment points) and the supervisory parameter (p-factor).

The **capital charge** of the underlying pool KIRB and KSA are defined in Article 255 as the ratio of 8% of the RWA on the exposure at default (EAD). KIRB also includes the expected loss (EL).
KIRB = (8%*RWA + EL) / EAD, where the RWA are measured under IRB approach

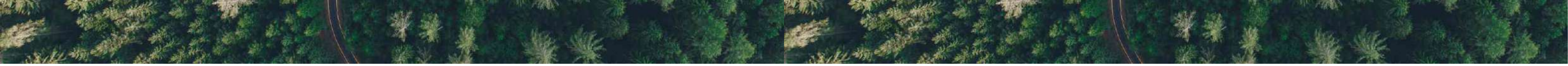
KSA = (8%*RWA) / EAD, where the RWA are measured under SA approach

The **attachment point** represents the level at which losses start to be allocated to the senior tranche, expressed as a decimal between 0 and 1. It is identical in SEC-IRBA and SEC-SA.

The **detachment point** represents the level at which the losses result in a total loss for the tranche. It is deemed equal to 100% for the senior tranche.

The **p-factor** is a supervisory parameter that represents a premium capital charge aiming to capture the agency risk and other specific risks embedded in securitisations. In SEC-IRBA the p-factor is modelized, based on different components including the effective number of exposures in the pool, the average LGD of the pool and the maturity of the tranche, and floored to 0.3. In SEC-SA, the p-factor is fixed to 1 or 0.5 for STS programs, considering that programs respecting STS criteria present fewer risks.

	SEC-IRBA	SEC-SA
Capital charge of the underlying pool	KIRB (measured through internal models)	KSA (measured under Standardised Approach)
Attachment Point	Level at which losses start to be allocated to the senior tranche	
Detachment Point	Deemed 100% for the senior tranche	
p-factor	Modelized, floored at 0.3	1 for non-STS securitisations 0.5 for STS securitisations



III – Transitional arrangement for the p-factor level

The level of the p-factor in SEC-SA is often criticized by the industry as exaggeratedly increasing the capital requirement for securitised positions on the ground of covering risks that are empirically limited. Its level constitutes the main reason of the impact of the Output Floor on securitisation efficiency. Responding to these critics, the European regulator reviewed its position in the direction of smoothening the impact of the Output Floor on securitisation.

The first draft of the Commission from October 2021 contained no specific provision regarding securitisation. In the last outcomes of the trialogue that concluded at the end of 2023, a reduction of the p-factor was agreed upon. The level of the p-factor to be applied in the SEC-SA must be divided by 2 in the final text that is expected to be published in April 2024 (that is 0.5 for non-STS and 0.25 for STS securitisation) but solely for the calculation of the Output Floor and as a transitional arrangement until December 31st, 2032 (Article 465-7).

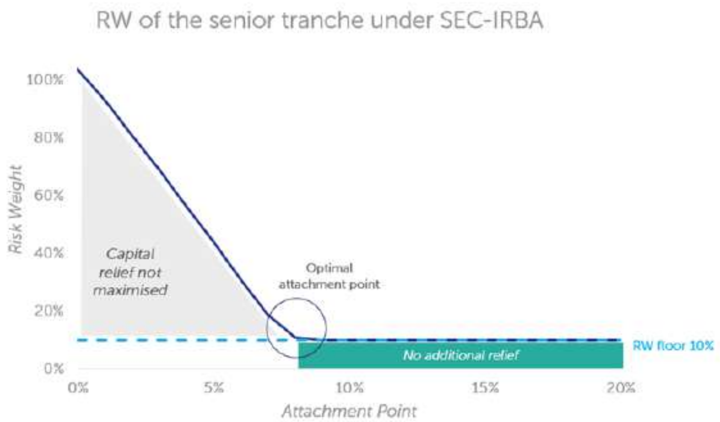
Level of the p-factor in SEC-SA	Until 2032	Beyond 2032
Non-STS Securitisaton	0,5	I
STS Securitisation	0,25	0,5

IV – Securitisation efficiency and impact of the Output Floor

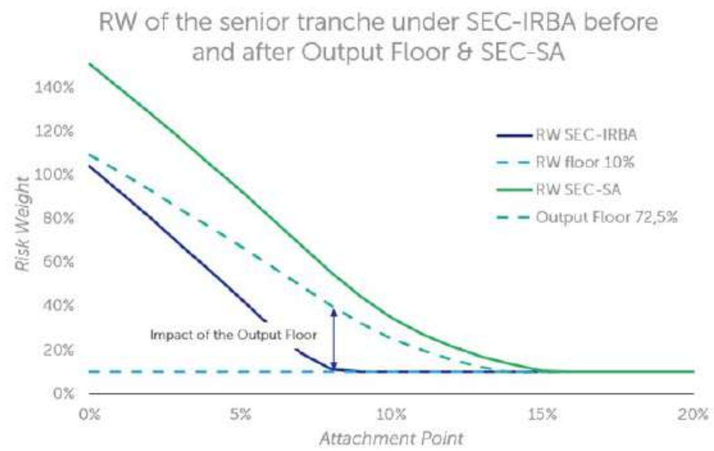
Most securitisation programs issued by European banks are built to be efficient under the SEC-IRBA. The capital relief is optimized when the risk weight of the senior tranche retained by the bank is as close as possible to the risk weight floor of 15% (or 10% for STS securitisations). The different parameters of the securitisation program are fine-tuned to reach this floor, in particular the thickness of the different tranches.

In the chart below, the attachment point on the x-axis represents the threshold at which losses start to be allocated to the senior tranche. The higher this level, the lower the risk left on the senior tranche, and consequently the lower the risk weight applied to this tranche. The optimal level for the attachment point is the level at which the risk weight floor is reached.

If the attachment point is lower than this optimum, the risk transfer and the capital relief are not maximized. On the opposite, if the attachment point is too high, the marginal cost of transferring risk is not compensated by a supplementary capital relief, because of the risk weight floor applicable to the senior tranche.



However, when measured under the SEC-SA approach, the risk weight of the retained tranche will often exceed this floor and result in a significantly higher capital charge for the bank. This is explained by two cumulative adverse factors: the total RWA of the reference portfolio pre-securitisation is generally higher when measured under SEC-SA than under SEC-IRBA (depending on the nature of the assets composing the portfolio***), and the risk weight function under SEC-SA is more conservative than under SEC-IRBA, in particular because of the higher level of the p-factor. These two effects result in a significantly higher risk weight for the senior tranche for a same securitised portfolio, with an attachment point and all other characteristics being equal. An attachment point located in the area of 8% to 12% is generally sufficient to reach the risk weight floor on the senior tranche under SEC-IRBA. However an 8% to 12% tranche might well result in a risk weight around 60% or 70% when measured under SEC-SA, which reduces clearly the economic interest of the securitisation. To remain economically efficient under SEC-SA, securitisation structures would need to change with thicker mezzanine tranches, which would considerably increase the cost of the risk transfer.



V – Example

Through this example we can more concretely observe the impact of the Output Floor on a securitisation program efficiency, and in particular the impact of the p-factor level. The characteristic chosen are typical of a corporate loans portfolio. As mentioned previously, not all securitisation programs will present such an extreme behavior depending on the composition of the portfolio. For the sake of simplicity, we assume that the portfolio has no currency mismatch.

EAD = 1bn€
RWA CRR2 = 45%
RWA CRR3 IRB = 45%
RWA CRR3 SA = 90%
Attachment point A = 8%
Detachment point D = 100%
Ratio of delinquent exposure W = 2%

Parameters	Formula	Non-STS	STS	STS (under transitional arrangement)
p-factor	Fixed value	1	0.5	0.25
K_{SA}	K_{SA} = (8%*RWA CRR3 SA) / EAD	7.2%	7.2%	7.2%
K_A	$K_A = (1-W)*K_{SA} + W*0.5$	8.1%	8.1%	8.1%
a	$a = -(1 / (p * K_A))$	-12.41	-24.83	-49.65
u	$u = D - K_A$	0.919	0.919	0.919
l	$l = \max(A - K_A ; 0)$	0	0	0
$K_{SSFA(KSA)}$	$K_{SSFA(KSA)} = (e^{au} - e^{al}) / a(u-l)$	0.0876	0.0438	0.0219
RW SEC-SA	See below	110%	55%	28%

Risk weight formula for SEC-SA is defined as below:

$RW = 1\,250\ \%$	when $D \leq K_A$
$RW = 12{,}5 \cdot K_{SSFA(K_A)}$	when $A \geq K_A$
$RW = \left[\left(\frac{K_A - A}{D - A}\right) 12.5\right] + \left[\left(\frac{D - K_A}{D - A}\right) 12.5\ K_{SSFA(K_A)}\right]$	when $A < K_A < D$

Considering the EAD of the senior tranche is 1bn€*92% = 920m€ (i.e. deduction of the 80m€ of the mezzanine tranche sold), we can measure the RWA pre- and post-securitisation under the three hypothesis. We can then deduct the securitisation efficiency as the ratio of the RWA relief on the pre-securitisation RWA.

RWA in m€	Pre-securitisation	Non-STS (p-factor = 1)	STS (p-factor = 0.5)	STS under transitional arrangement (p-factor = 0.25)
RWA remaining after securitisation (IRBA)	450	138	92	92
RWA remaining after securitisation (SA)	900	1.012	506	257.6
RWA after Output Floor 72.5%	652.5	733.7	366.9	186.8
Efficiency before/after Output Floor	0% / 0%	69% / -12.4%	80% / 44%	80% / 71%

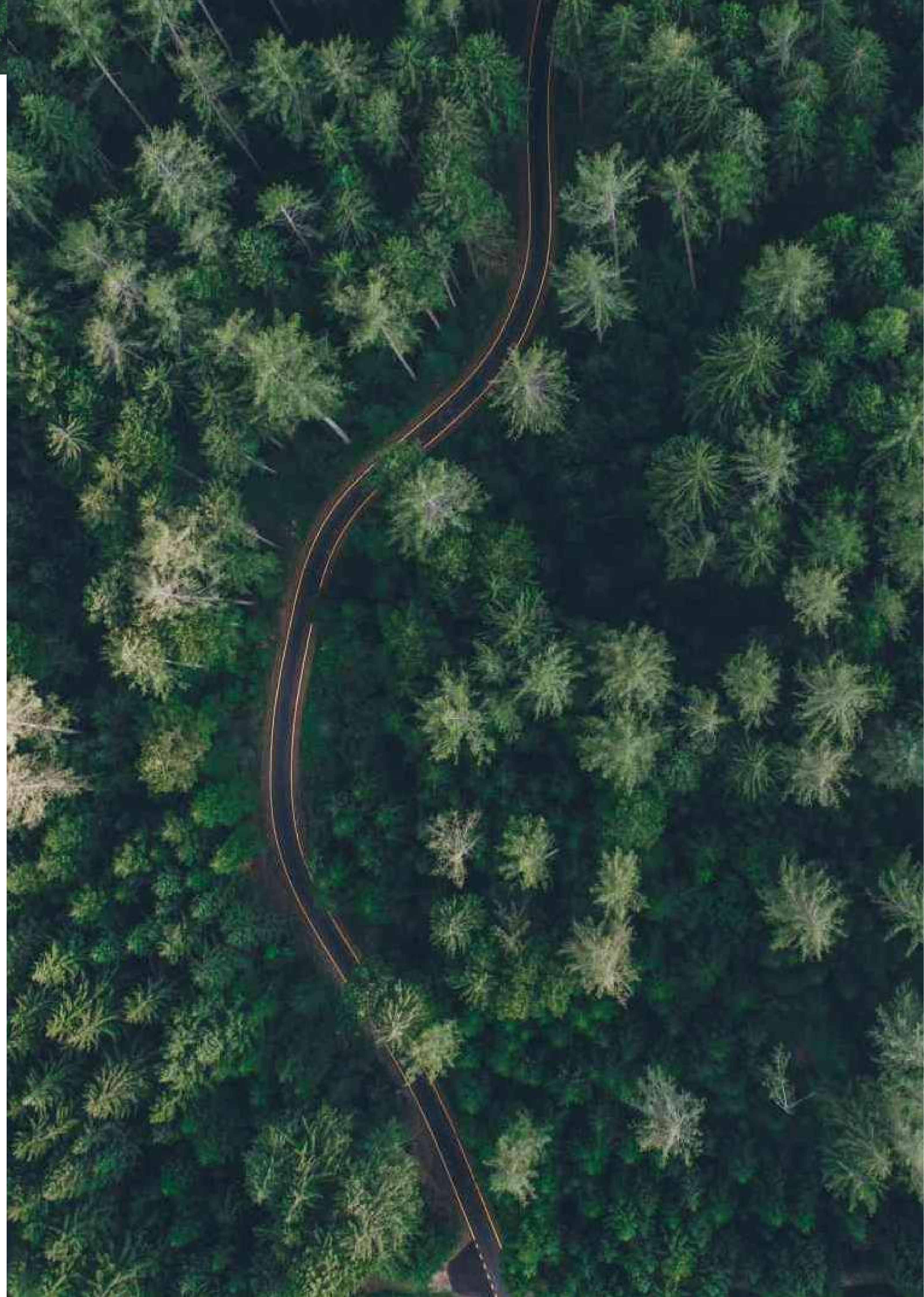
We can see that the securitisation efficiency improves drastically as the p-factor diminishes. However, even under the most favorable hypothesis of a p-factor of 0,25 (that will apply to STS securitisation until 2032), the efficiency after Output Floor is lower than it was in IRBA.

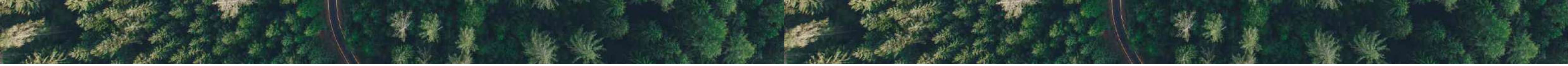
Conclusion

While the Chapter 5 of the CRR defining the RWA calculation for securitised positions is not touched by the upcoming revision, we have seen that the introduction of the Output Floor will have a major impact on securitisation efficiency to release capital. This impact will be variable depending on the nature of the programs. The corporate loans portfolio will be particularly penalized.

The European regulator acknowledged this negative impact and proposed temporary measures that will soften this impact until 2032, even though it will remain material for many actors.

Banks will have to adapt to this new deal. Obtaining the STS label is more than ever a necessity to keep the Output Floor impact within acceptable limits. Beyond 2032, unless the regulator agrees to soften the securitisation treatment under the SEC-SA or to entrench the temporary levels of the p-factor, banks would have to rethink the structure of their programs. A way to improve the efficiency would be to increase the thickness of the mezzanine tranches, which will result in an increase of the price of the risk transfer and also depend of the market appetite for riskier tranches.





Supervision
EBA (Validation Rules)

List of ITS Validation Rules

The EBA has issued a revised list of validation rules in its 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.

Release date: 2024-03-22

eba.europa.eu

MiFIR
ESMA (Press Release)

Transition to the revised MiFIR Rulebook

The ESMA has issued a press release in light of the changes introduced by the MiFIR review, which enter into force on 28 March 2024. ESMA has received numerous questions from stakeholders on the provisions applicable on the date of entry into force of the revised MiFIR. It acknowledges that guidance is particularly necessary on the application of Article 54(3) MiFIR which foresees the continued application of the delegated acts in place beyond 28 March 2024, until these delegated acts have been revised.

Release date: 2024-03-21

Esma.europa.eu

Supervision
EBA (Press Release)

Institutions Involved in the 2024 Supervisory Benchmarking Exercise

The EBA has published an updated list of institutions which have a reporting obligation for the purpose of the 2024 EU supervisory benchmarking exercise. The EBA will be conducting the 2024 benchmarking exercise on a sample of 110 institutions from 16 countries across the EU and the European Economic Area.

Release date: 2024-03-20

Eba.europa.eu

BRRD
SRB (Consultation)

Minimum Bail-in Data Template

The Single Resolution Board has initiated a public consultation on the Minimum Bail-in Data Template (MBDT). This template is designed to gather bail-in data in case of bank failures or for testing purposes, while also accommodating national law requirements. The consultation aims to gather input from industry and stakeholders to refine the template, focusing on aspects such as documentation content, data point model and format, and data collection process.

Release date: 2024-03-13
Consultation End: 2024-05-08

Srb.europa.eu

Supervision
BCBS (Consultation Paper)

Window-Dressing behaviour in the Context of G-SIB

The BCBS has published a consultation on potential measures to address "window-dressing" behavior in the context of the global systemically important banks (G-SIB) framework. Window-dressing involves temporarily reducing banks' perceived systemic footprint around reporting dates for G-SIB scores. Proposed revisions would require banks to report G-SIB indicators based on average values over the reporting year, rather than year-end values, aiming to prevent manipulation.

Release date: 2024-03-07
Consultation End: 2024-01-31

bcbs.org

Basel
BCBS (Report)

Basel III Monitoring Report

The BCBS has published its latest monitoring exercise report, indicating that the initial Basel III capital ratios for major global banks remained stable and above pre-pandemic levels in the first half of 2023. The report covers the impact of the Basel III framework, including the December 2017 and January 2019 finalisations. The average impact on Tier 1 minimum required capital of Group 1 banks was +4.9%, and profits after tax for large internationally active banks reached a record €279 billion. Liquidity coverage ratios increased, with the Weighted Average Liquidity Coverage Ratio for Group 1 banks surpassing pre-pandemic levels at 138.6%.

Release date: 2024-03-06

[bis.org](bis.org)

Insurance Deposit Scheme
ECON (Report)

Report on the Insurance Deposit Scheme

The European Parliament's Economic and Monetary Affairs Committee (ECON) released a draft report addressing the legislative proposal for a European Deposit Insurance Scheme (EDIS Regulation). The report includes suggested changes to the proposed regulation and follows the European Commission's initial adoption of the legislative proposal in November 2015. Notably, in December 2022, key Members of the European Parliament urged a renewed focus on the proposed Regulation, which had been on hold while the EU concentrated on completing the Banking Union.

Release date: 2024-03-05

[2015/0270(COD)](2015/0270(COD))

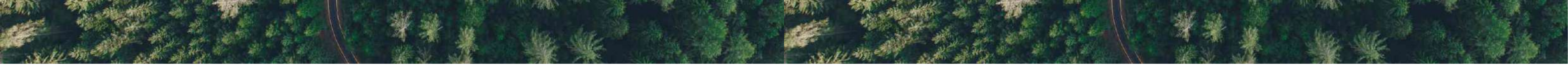
Market Trends
BCBS (Press Release)

Policy and Supervisory Initiatives

The BCBS published a press release in which it announced that it has approved revisions to the Core Principles for Effective Banking Supervision, aiming to enhance global financial stability. The committee also announced potential measures to address "window-dressing" behavior by certain banks in the context of the framework for G-SIBs, seeking to reduce regulatory arbitrage. Additionally, the committee emphasised the importance of implementing Basel III reforms fully and consistently, addressing risks and vulnerabilities in the global banking system.

Release date: 2024-03-01

[Bis.org](Bis.org)



Market Trends
IOSCO (Report)

Streamlining variation margin in centrally cleared markets – examples of effective practices

The CPMI and the IOSCO published a report titled 'Streamlining variation margin in centrally cleared markets – examples of effective practices.' The report follows up on a previous review of margining practices published in September 2022, focusing on variation margin (VM) processes in centrally cleared markets. It presents eight examples of effective practices for central counterparties and their clearing members, aiming to guide them in designing VM call and collection processes in accordance with established principles and guidance.

Release date: 2024-02-13

IOSCOPD762

AML/CRR
EBA (Report)

On the Peer Review on the Joint ESAs Guidelines on the prudential assessment

The EBA has published a follow-up report on the Peer Review conducted in 2021 regarding the implementation of the Joint ESAs GL on the prudential assessment of the acquisition of qualifying holdings. The follow-up assesses the actions taken by 17 competent authorities identified with deficiencies in the initial review. The report highlights positive progress in addressing the issues, especially in evaluating the financial soundness of potential acquirers and addressing concerns related to money laundering and terrorist financing.

Release date: 2023-02-12

eba.europa.eu

CRR
EBA (Technical Document)

Technical package for 3.4 reporting framework

The EBA has released a technical package for version 3.4 of its reporting framework. This package includes standard specifications such as validation rules, the Data Point Model (DPM), and XBRL taxonomies. The purpose is to support amendments to the reporting and disclosure technical standards related to minimum requirements for own funds and eligible liabilities, total loss-absorbing capacity (MREL/TLAC), and minor corrections to the technical package on IRRBB. The update also involves the DPM Query Tool to align with the current release.

Release date: 2024-02-06

eba.europa.eu

Climate Risk
ECB (Policy Agenda)

ECB to step-up focus on climate and nature-related Risk

The ECB has announced an expansion of its efforts to address climate change, outlining three focus areas for 2024 and 2025. These areas include the impact of transitioning to a green economy, the physical effects of climate change, and risks related to nature loss and degradation. The ECB will intensify its work on transition funding, green investment needs, and adaptation to climate change. Concrete measures include analyzing extreme weather events' impact on inflation, exploring changes to monetary policy instruments, and launching an Environmental Management Programme.

Release date: 2024-01-30

ecb.europa.eu

CRR
Commission (Report)

Macroprudential review for credit institutions

The European Commission has published a report on the macroprudential review for credit institutions, focusing on systemic risks associated with Non-Bank Financial Intermediaries (NBFIs) and their connections with credit institutions. This report, evaluates the EU macroprudential framework outlined in the CRR and the CRD IV and draws on various studies, including those by EU and international bodies, as well as input from a public consultation and bilateral discussions with stakeholders.

Release date: 2024-01-24

COM(2024)21

Bechmarks Regulation
EBA (Consultation)

Amendments of the data collection for the 2025 benchmarking exercise

The EBA has published a consultation paper proposing amendments to the data collection process for the benchmarking exercise in 2025. The key change focuses on the market risk framework, introducing new templates for collecting risk measures related to the FRTB. This includes updates to market portfolio structure and expanded validation portfolios for the Alternative SA. For credit risk, only minor changes are suggested to clarify reporting requirements for certain risk parameters.

Release date: 2024-01-18
Consultation End: 2024-03-27

EBA/CP/2024/03

Supervision
BCBS/IOSCO (Consultation)

Streamlining VM processes and IM responsiveness of margin models in noncentrally cleared markets

The BCBS and the IOSCO have jointly released a report on streamlining variation margin processes and improving the responsiveness of initial margin models in non-centrally cleared markets. The report provides eight recommendations to encourage the adoption of good market practices, addressing challenges in margin and collateral calls during stress periods. The recommendations focus on making the Standard Initial Margin Model (SIMM) more responsive to extreme market shocks. The report does not propose policy changes but seeks input from interested parties.

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

bcbs/publ/d569

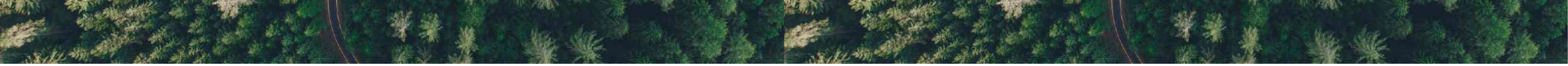
Market Trends
BIS (Consultation)

Transparency and Responsiveness of initial margin in centrally cleared markets

The BCBS, the CPMI and the International IOSCO, have published a consultative report on the transparency and responsiveness of initial margin in centrally cleared markets. The report includes ten policy proposals aimed at improving participants' understanding of initial margin calculations and future margin requirements in centrally cleared ecosystems. The proposals cover areas such as margin simulation tools, disclosures by CCPs, measurement of initial margin responsiveness, governance frameworks, and clearing member transparency.

Release date: 2024-01-16
Consultation End: 2024-04-17

bcbs/publ/d568



Supervision

CRDV/CRR

EBA (RTS)

Updated Technical Standards on Supervisory Colleges

The EBA has released updated RTS and ITS on supervisory colleges, aligning them with the CRD V and CRR 2. The revisions focus on improving information exchange within the supervisory college, identifying emerging risks during adverse events, and facilitating efficient supervision of cross-border banking groups. The goal is to establish a common EU framework for supervisory colleges and enhance the effectiveness of cross-border banking group supervision.

Release date: 2024-01-10

EBA/RTS/2024/01

Risk Management

BRRD/SRMR

Council (Press Release)

Daisy Chains Directive Adopted by Council

The Council of the EU has announced it had adopted the so-called Daisy Chain Directive which makes amendments to the BRRD and the SRMR as regards certain aspects of the minimum requirement for own funds and eligible liabilities.The European Parliament adopted the draft Directive on 27 February 2024.

Release date: 2024-03-27

consilium.europa.eu

Securitisation Framework

Parliament (RTS)

Performance-related Triggers and the Criteria for the Calibration of Those Triggers

The Official Journal of the EU has published a Commission Delegated Regulation supplementing the Securitisation Regulation with regard to RTS specifying the performance-related triggers and the criteria for the calibration of those triggers. The RTS specify the two mandatory triggers: the additional mandatory backward-looking trigger under point and the mandatory forward-looking trigger under point. The RTS also set out criteria to be fulfilled by the parties to the securitisation in order to set the level of the mandatory triggers.

Release date: 2024-03-22
Application Date: 2024-04-11

(EU) 2024/920

Risk Management

CRR

Commission (RTS)

Supervisory Reporting of IRRBB

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

Release date: 2024-03-15

C(2024)1620

CRR

Commission (RTS)

Specification of the conditions to calculate KIRB in relation of a securitisation transaction

The European Commission has published a Delegated Regulation which specifies conditions for institutions to calculate KIRB concerning the underlying exposures of securitisations under the CRR. It covers requirements for risk differentiation, eligibility criteria, data usage, and definition consistency concerning default. The regulation aims to provide a framework for accurately assessing credit risk in securitised exposures, ensuring compliance and consistency across institutions within the European Union.

Release date: 2024-03-13

C(2024)1677

CRR

Commission (RTS)

Compliance with the IM Approach for Market Risk

The European Comission has published RTS concerning the assessment methodology used by competent authorities to ensure institutions comply with internal model approach regulations outlined in the CRR. These standards, developed under Article 325az(8)(b) of the CRR, provide guidance for competent authorities to assess an institution's compliance with internal model requirements, which are crucial for determining own funds requirements for market risk computation. The RTS consist of three main chapters covering governance requirements, internal risk-measurement models, and internal default risk models.

Release date: 2024-03-13

C(2024)1678

CRR

EBA (Consultation Paper)

Off-balance sheet items under the standardised approach

The EBA has initiated a public consultation on draft RTS under CRR concerning off-balance sheet items within the standardised approach of credit risk. These standards aim to establish criteria for classifying off-balance sheet items and outline factors restricting institutions' ability to cancel unconditional commitments. The draft RTS is part of the first phase of the EBA roadmap for implementing the EU Banking Package. The proposed standards are expected to contribute to a more robust regulatory framework, efficient supervision, and enhanced risk control for credit institutions.

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

EBA/CP/2024/08

CRR
EBA (Consultation)

On ITS on Pillar 3 Operational Risk disclosures

The EBA has initiated a public consultation on proposed amendments to operational risk Pillar 3 and supervisory reporting requirements to implement Basel III reforms in the EU. The changes are driven by the revised operational risk framework and aim to enhance monitoring of institutions compliance with Basel III for operational risk. The proposed amendments align disclosure requirements with Basel III, promoting consistency and comparability. The consultation includes two draft ITS covering Pillar 3 disclosures and supervisory reporting for operational risk.

Release date: 2024-02-20
Consultation End: 2024-05-30

EBA/CP/2024/06

Supervision
EBA (Consultation)

On BI-related mandates in the CRR3

The EBA has initiated a consultation on RTS and ITS related to the business indicator (BI) for operational risk, as part of the implementation of the EU Banking Package. The consultation covers the clarification of BI composition, mapping BI items to financial reporting (FINREP) items, and addressing adjustments to the BI for specific operations. The draft standards provide lists of typical items, map BI items to FINREP reporting cells, and specify conditions for BI adjustments during operations such as disposals.

Release date: 2024-02-20
Consultation End: 2024-05-24

EBA/CP/2024/05

Supervision
ECB (Technical Guide)

ECB Guide to Internal Models

The ECB has published the final revised Guide to internal models after a public consultation. The guide provides clarity on rules for banks using internal models to calculate risk-weighted assets. The revisions cover general topics, credit risk, market risk, and counterparty credit risk. The update includes considerations for climate-related risks and requirements for common definitions of default. The guide aims to assist banks in incorporating environmental risks, moving towards a common definition of default, and addressing issues related to market and counterparty credit risks.

Release date: 2024-02-19

supervisory_guides202402

Securitisation Framework
Commission (RTS)

Homogeneity of the underlying exposures in simple, transparent and standardised securitisations

The Official Journal of the EU has published a delegated regulation with RTS concerning the homogeneity of underlying exposures in simple, transparent, and standardized (STS) securitisation. The RTS extends its scope to include on-balance-sheet securitisations and establishes uniform conditions for homogeneity across all securitisation types. The provisions aim to ensure consistency with the new mandate and offer clarity on specific requirements.

Release date: 2024-02-14
Application Date: 2024-03-05

(EU) 2024/584

BRRD/SRMR
SRB (Report)

MREL dashboard Q3.2023

The SRB, has published its MREL dashboard for Q3 2023. The dashboard provides insights into the evolution of MREL targets and shortfalls for both resolution and non-resolution entities, along with the level and composition of resources of resolution entities. Key findings include progress in building MREL levels by banks, a decrease in the total MREL shortfall, and information on MREL-eligible instruments. The report also highlights funding costs, recent developments, and the issuance of MREL-eligible bonds.

Release date: 2024-02-12

srb.europa.eu

CRR
EBA (Consultation Paper)

Exemption from the RRAO hedges under the FRTB

The EBA has initiated a public consultation on draft RTS regarding conditions for determining whether an instrument attracting residual risk acts as a hedge. The focus is on the residual risk add-on (RRAO) within the new FRTB framework. The CRR3 introduces a provision allowing exemption from the RRAO charge for instruments hedging residual risks. The EBA is seeking input on RTS specifying criteria for qualifying instruments as hedges for exemption purposes.

Release date: 2024-02-01
Consultation End: 2024-05-03

EBA/CP/2024/04

CRR
Commission (RTS)

Calculation of Stress Scenario Risk Measure

The Official Journal of the EU has published a Delegated Regulation supplementing the CRR with regard RTS on the Calculation of the stress scenario risk measure. The RTS outline two methods for developing extreme scenarios for non-modellable risk factors: the direct method, involving calculating expected shortfall based on historical levels during stress periods, and the stepwise method, involving expected shortfall on observed returns. It also specifies criteria for determining the regulatory extreme scenario and allows institutions to calculate a single stress scenario risk measure for multiple non-modellable risk factors within the same standardised bucket.

Release date: 2023-01-29
Application Date: 2024-02-18

(EU) 2024/397

CRR
EBA (Report)

Heatmap on the Implementation of IRRBB Standards in the EU

The EBA has published a heatmap as part of its scrutiny of the implementation of IRRBB standards in the European Union. This follows the regulatory package on IRRBB published in October 2022. The heatmap highlights areas subject to further scrutiny, including aspects of EBA guidelines, management of interest rate risk, and the impact of interest rate increases on capital instruments and other financial aspects.

Release date: 2024-01-24

EBA/REP/2024/02

Risk Management

CRR
EBA (Consultation)

Draft RTS on Prudent Valuation

The EBA has published a consultation paper proposing targeted amendments to the RTS on prudent valuation. The aim is to enhance a more consistent application of the RTS, reduce variability in additional value adjustments (AVAs) under the core approach, and establish rules for the application of the prudent valuation framework during extraordinary circumstances. The proposed amendments also aim to establish rules for applying the prudent valuation framework during extraordinary circumstances.

Release date: 2024-01-16
Consultation End: 2024-04-16

EBA/CP/2024/001

CRR
EBA (Report)

Report on Specific Aspects of the NSFR Framework

The EBA has released a report on the NSFR framework. The report evaluates the materiality of items such as derivative contracts, securities financing transactions, and unsecured transactions with financial customers. It also assesses the potential impact of changes to the current prudential treatment. The analysis, concludes that the analyzed items have limited materiality in contributing to the required stable funding for both major and smaller banks. The report suggests that changes to the current regulatory treatment are not necessary, as they may not significantly affect institutions.

Release date: 2024-01-16

EBA/Rep/2024/01

CRR
EBA (ITS)

Revised Reporting Requirements for Market Risk

The EBA has published the revised reporting requirements for market risk in anticipation of the implementation of the FRTB in the EU. The amendments include changes to the information reported on own funds requirements under alternative approaches and the addition of reporting on reclassifications of instruments between books. The updated standards provide details on the alternative standardised approach (ASA) and the alternative internal model approach (AIMA).

Release date: 2024-01-11

EBA/ITS/2024-02

Climate Risk

CRR
EBA (Consultation)

Classification methodologies for exposures to ESG risks

The EBA has initiated an industry survey to gather input from credit institutions regarding their methodologies for classifying exposures to ESG risks. The survey aims to collect qualitative information on current practices and assess the feasibility of introducing a standardised methodology for identifying and qualifying exposures to ESG risks.

Release date: 2024-01-29
Consultation End: 2024-03-29

eba.europa.eu

Climate Risk
EBA (Consultation Paper)

Guidelines on the management of ESG risks

The EBA has initiated a public consultation on draft Guidelines for the management of ESG risks. These guidelines outline requirements for financial institutions to identify, measure, manage, and monitor ESG risks, including those associated with the transition to a climate-neutral economy in the EU. The draft Guidelines aim to ensure the safety and soundness of institutions by establishing principles for internal processes and management arrangements related to ESG risks. Additionally, they address the financial risks stemming from factors such as climate change and environmental degradation.

Release date: 2024-01-18
Consultation End: 2024-04-18

EBA/CP/2024/02

Market Environment

Market Trends
EBA (Report)

Q3 2023 Quarterly Risk Dashboard

The EBA has published its Q3 2023 Risk Dashboard, indicating that EU/EEA banks maintained high profitability, robust liquidity, and strong capitalization levels. However, there are concerns about asset quality deterioration as higher interest rates may impact borrowers. Economic activity in Europe is subdued, with high macroeconomic uncertainty due to the ongoing monetary policy response to inflation. Operational risks, especially in cyber and data security, continue to be elevated. Overall, while banks are resilient, there are potential challenges ahead, and some countries report marginal MREL shortfalls.

Release date: 2024-01-12

eba.europa.eu

Reporting & Disclosure

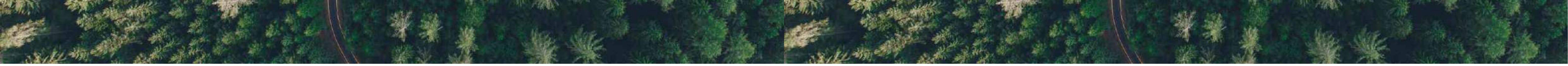
Supervision
EBA/ECB (Press Release)

ECB and EBA establish Joint Bank Reporting Committee

The ECB and the EBA have announced that they have formed the Joint Bank Reporting Committee (JBRC) to streamline data reporting in the banking industry. The aim is to harmonise reporting standards across statistical, supervisory, and resolution requirements, reducing costs and improving efficiency. The committee will involve EU bodies, national authorities, and banking representatives to develop common definitions and standards. Key goals include creating a common data dictionary and simplifying reporting processes.

Release date: 2024-03-18

ecb.europa.eu



ARTICLE

Insights from EBA's Guidance on ESG Risk Management

Written by Sheta Goswami, Consultant.

The EBA's Draft Guidelines on the ESG Risk Management, published on 18 January 2024, provide detailed guidance for financial institutions on handling ESG risks within short (under 3 years), medium (3-5 years) and long term (over 10 years) frameworks, aiming for completion by the end of 2024. These guidelines advocate for the incorporation of ESG risk considerations into the standard risk management practices of financial institutions, detailing specific metrics and standards, such as their inclusion in ICAAP and ILAAP, affecting the pricing, gathering and analysis of ESG data. Highlighting the complexity and potential cost, especially for smaller institutions, the guidelines also emphasize the opportunity for institutions to enhance their ESG risk assessment and data insight capabilities.

Subsequently, we will outline the key compliance requirements for banks regarding ESG risk management and offer strategies for institutions struggling to prioritize and effectively manage ESG risks.

Navigating ESG Risk Management: A Comprehensive Guide

In the evolving landscape of finance, Environmental, Social, and Governance (ESG) risks have emerged as pivotal factors influencing the financial performance and operational resilience of institutions. This guide delves into the intricacies of ESG risk management, offering a pathway for institutions to navigate these challenges while aligning with regulatory standards and societal expectations.

The Imperative of ESG Risks

ESG risks, encompassing environmental, social, and governance factors, increasingly bear significant implications for financial institutions. From climate change and resource depletion to human rights and corporate ethics, these factors affect long-term sustainability and can lead to considerable financial losses if not managed. Understanding and integrating ESG risks into strategic frameworks is crucial for sustainable growth and regulatory compliance.

The European Banking Authority (EBA) plays a pivotal role in setting guidelines for managing ESG risks within the EU's banking sector, aiming to enhance its resilience and integrate ESG factors into business strategies. The forthcoming guidelines, expected by the end of 2024, will establish a comprehensive framework for financial institutions, promoting a uniform approach across member states.

Given the comprehensive detail that the new guidelines provide on ESG data and monitoring, our discussion will primarily focus on these aspects. While we will also touch on critical areas including proportionality, materiality, principles of ESG risk management, ICAAP, ILAAP, strategies and business models, internal culture and controls, these topics will be covered in a more concise manner.

Proportionality

The principle of proportionality applies to how institutions manage and govern ESG risk internally. All institutions are expected to adopt ESG risk management practices that align with the significance of ESG risks to their specific business models. For smaller and less complex institutions (SNCIs), it is acceptable to employ simpler risk management strategies. This might include using methodologies that are less detailed, or leaning more heavily on qualitative assessments, estimates, and proxies, provided these approaches do not compromise their capacity to manage ESG risks effectively and prudently, to remain consistent with their evaluation of risk materiality.

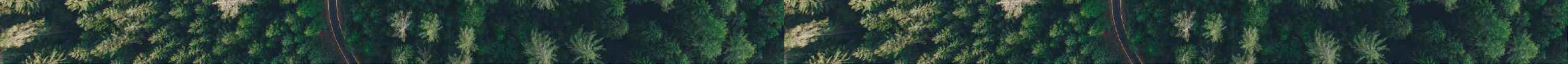
A Methodical Approach to ESG Risk

Materiality Assessment of ESG Risks

- Objective: Regular assessment to integrate ESG risks into strategies and procedures.
- Frequency: Annually, or every two years for small and non-complex institutions, and when significant changes occur.
- Scope: Assessment includes all financial risk categories (credit, market, operational, etc.).
- Process: Institution-specific, considering short (<3yr), medium (3y-5y), and long-term horizons (>=10y).
- Factors: Includes qualitative and quantitative elements, impact on significant activities, and both transition and physical environmental risks.
- Risk-Based Approach: Considers likelihood and severity of risk materialization.
- Focus on Carbon Intensive sectors: Sectors highly impacted by transition risk.
- Documentation: Part of ICAAP, detailing methodologies, inputs, limits/thresholds, outcomes, and conclusions/actions drawn.

Identification and Measurement of ESG Risks

- Data Processes: Collection, structuring, and analysis of data for ESG risk assessment.
- Engagement: Interacting with clients to capture ESG-related information, e.g. designing questionnaires during credit origination/periodic reviews.
- Assessment Principles: Identifying ESG risk drivers, mapping exposures, and measuring material risks with a forward-looking perspective.
- Methodologies: Combining exposure-based, portfolio-based, and scenario-based methods for comprehensive assessment.
- Exposure-Based Methodology: Assessing counterparty exposure to ESG factors, reflecting these in risk classification and default risk assessment.
- Portfolio-Based Methodology: Using climate-related portfolio alignment methodologies, identifying natural capital dependencies, and measuring impacts on Sustainable Development Goals.
- Scenario-Based Methodology: Institutions should perform climate/environmental scenario-based analyses, as set out in [to insert reference to future EBA Guidelines addressing letter d of the mandate under article 87a(5) of the CRD]



ESG Data

Institutions are required to gather and assess necessary data and information, aiming to enhance the quality of ESG data progressively. This entails collecting both current and forward-looking data points, including data at the client level for instance through questionnaires completed at the initiation of credit and during periodic credit reviews, as well as publicly available data specific to clients and, where applicable, data related to assets. For engagements with large corporate entities, a minimum of nine specific data types concerning environmental risks should be considered. These include both current and projected greenhouse gas emissions, along with energy and water usage, among others. Regarding social and governance risks, institutions should account for at least five types of data, covering aspects like adverse effects on local communities and governance practices.

Overview - Standards for management of ESG risks

ESG Risks Management Principles

- ESG risks should be integrated in the institution-wide risk management framework, influencing all categories of financial risks.
- Regular risk management systems should fully incorporate ESG risks, aligning with the overall business and risk strategies.
- Institutions need a robust approach to manage ESG risks across short to long-term horizons, utilizing tools such as engagement with counterparties, financial adjustments based on ESG considerations, and diversification strategies.

Strategies and Business Models

- ESG risks must be considered in the development and implementation of business and risk strategies.
- Institutions should assess how ESG risks, especially environmental factors like transition and physical risks, impact the business model's viability.
- Strategies should reflect an understanding of ESG risks, with objectives and KPIs to monitor ESG impact.

Risk Appetite

- Material ESG risks should be defined and addressed within the institution's risk appetite framework.
- The ESG-related KRIs, setting limits, thresholds or exclusions, should be implemented based on ESG considerations.
- Risk appetite and KRIs should be communicated and monitored across the institution.

Internal culture & capabilities

- Continuous development of ESG risk identification, assessment, and monitoring capabilities.
- Training for management and staff on ESG implications, ensuring responsibilities are effectively fulfilled.
- Incorporation of ESG risks into the institution's risk culture and internal control frameworks, including clear definitions and assignments of responsibilities.

ICAAP and ILAAP

- Integration of ESG risks into the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) to cover potential solvency or liquidity impacts.
- Description of risk appetite, thresholds, and limits for ESG risks in ICAAP and ILAAP frameworks, with methodologies reflecting the institution's size and complexity.

Monitoring ESG risks

- Effective internal reporting frameworks for continuous ESG risk monitoring, providing senior management with relevant data.
- Implementation of ESG risk metrics and indicators for oversight, including historical losses, exposure to high carbon sectors, and progress against ESG targets.

ESG Monitoring

ESG risks require ongoing monitoring – both at the portfolio level and down to individual counterparty and exposure levels. The integration of ESG risk considerations into the routine credit assessments for mid-sized and larger counterparties should be standard, possibly by enhancing the depth and frequency of these assessments with a focus on ESG risk.
Institutions ought to establish early warning signals, define limits/thresholds and prepare action plans for remediation if the limits are breached.
Given the comprehensive nature of requirements, institutions are advised to employ at least the following indicators for tackling ESG risks, with Small and Non-complex institutions (SNIs) being encouraged to consider their application:

a. Historical and Future ESG Risk Analyses: Assess historical losses and forward-looking estimates of exposures-at-risk and financial losses related to ESG risks, utilizing scenario-based methods.
b. Income from High Climate Impact Sectors: Calculate the amount and share of income derived from sectors significantly contributing to climate change, with large institutions adopting more detailed metrics.
c. Portfolio Climate Alignment: Evaluate the alignment of existing portfolios with climate targets, aiming for next-zero GHG emissions by 2050, using specified portfolio alignment methods.
d. Scope 3 Emissions: Account for financed GHG emissions, especially in materially exposed sectors, employing recognized methodologies like Global GHG Accounting and Reporting Standard.
e. Engagement on ESG risks: Document the percentage of counterparties engaged on ESG risks, focusing on sectors with material exposures, and report the outcomes of such engagements.
f. Sustainable vs Carbon-Intensive Exposures: Monitor the share of environmentally sustainable and carbon-intensive exposures, using clear methodologies, with large institutions also tracking Taxonomy-aligned exposures.
g. Real Estate Collateral Energy Efficiency: Classify real estate collateralized portfolios by energy efficiency levels.
h. Physical Risk Concentration: Analyze concentration risks related to physical risk drivers (e.g., flood or wildfire risks) with a detailed geographical exposure breakdown.
i. ESG-Related Litigation: Track any ESG-related litigation claims involving the institution, based on available information.
j. Progress on ESG Targets: Report on progress towards the institution’s ESG risk management and objectives, including sustainability commitments.

Principles for Effective Management

ESG risks necessitate consideration across all aspects of business and risk strategies, requiring institutions to adopt a robust approach that includes engagement with counterparties, financial adjustments based on ESG considerations, and diversification strategies. Setting ESG-related KRIs, monitoring risk appetite, and continuously developing ESG risk assessment capabilities are essential for managing these risks effectively.

Towards a Sustainable Future

The guidelines emphasize the importance of aligning ESG plans with business strategies, public communications, and ensuring coherence across all planning horizons, with a clear focus on environmental aspects while gradually including social and governance risks. The guidelines aim to standardize the approach to ESG risk management, reflecting the sector's impacts on climate change and the broader push towards sustainability.

By adhering to these guidelines, institutions can not only mitigate the risks associated with ESG factors but also capitalize on the opportunities they present, paving the way for a more resilient and sustainable financial sector.

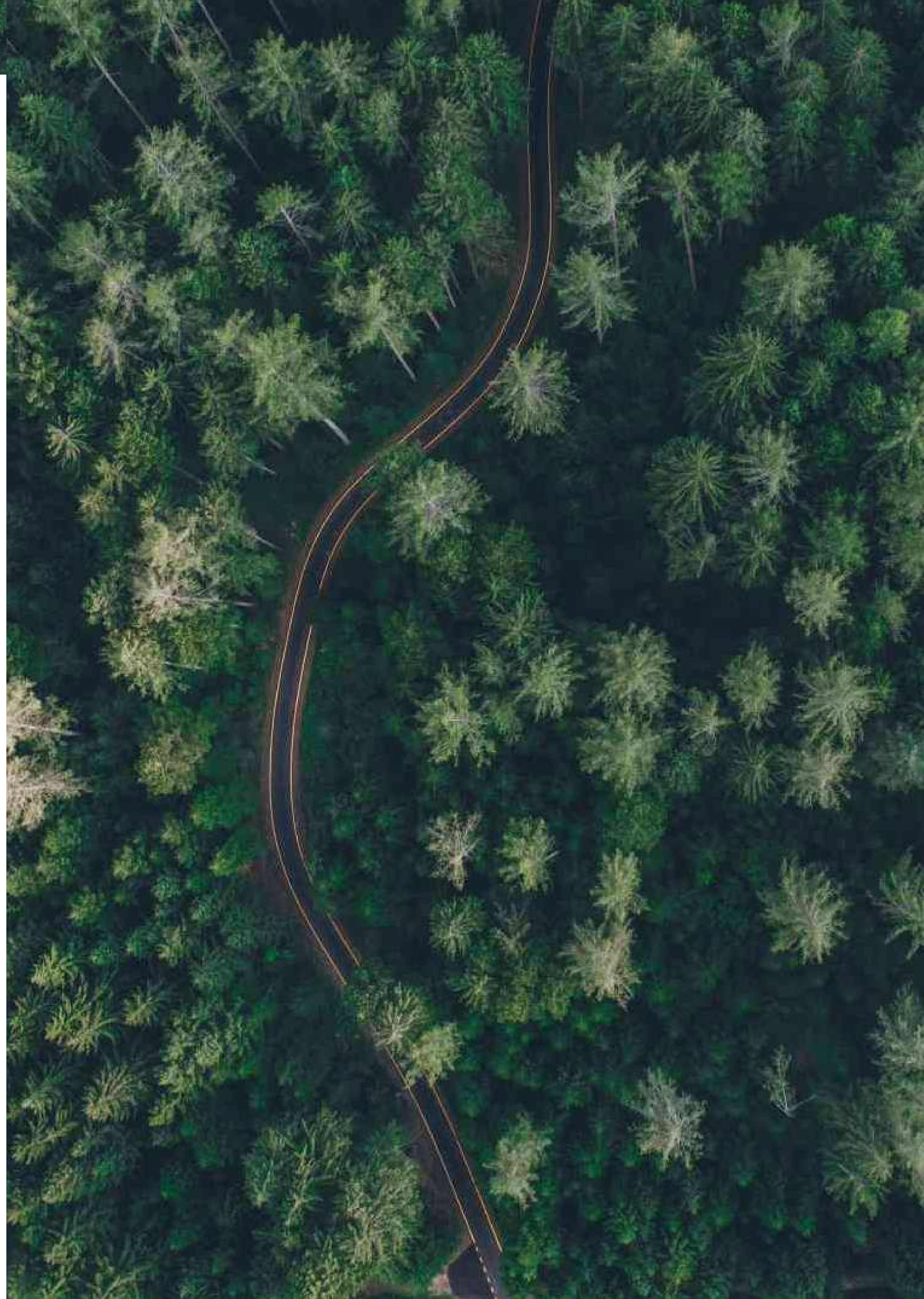
Strategy Roadmap

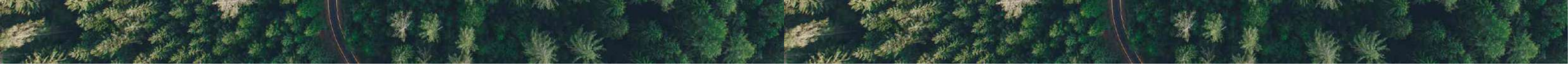
Navigating the complex landscape of ESG risk management and data collection can be daunting, especially when immediate action is required alongside a deep understanding of relevant risks and data points. A structured approach to tackling this challenge could involve the following steps:

- Initiate by Engaging Knowledgeable Staff: Begin by bringing onboard employees who possess a strong understanding of ESG risks.
- Leverage Expert Consultants: To expedite the process, seek assistance from consultants well-versed in best practices within ESG risk management.
- Conduct a Preliminary ESG Risk Analysis: Start with evaluating the proportionality and materiality of ESG risks to your institution.
- Understand Regulatory Compliance Requirements: Ascertain what regulatory compliance entails for your institution and use this understanding as a foundation for further actions.
- Establish Basic Compliance and Knowledge Frameworks: Initially, focus on achieving basic compliance, acquiring essential knowledge, and gathering initial data. This foundation will enable you to set more ambitious, long-term objectives beyond mere compliance.
- Integrate and Improve Continuously: Recognize that ESG risk management is an ongoing effort, not a one-off project. It should be seamlessly integrated into existing risk management frameworks and practices, with continuous improvement over time.

This phased approach ensures a solid foundation in ESG risk management, from which more advanced strategies and goals can be developed as part of a continuous improvement process.

In a few words, the EBA's CRD VI guidelines mark as a pivotal shift towards embedding ESG risks within the risk management strategies of financial institutions. By standardizing ESG risk management, these guidelines align with global sustainability goals and equip the banking sector for a sustainable future. For financial institutions, this presents both challenges and opportunities to innovate and contribute significantly to the global transition towards sustainability. As consultants, we view these guidelines as essential for helping our clients navigate these rapidly evolving regulatory and market landscapes.





ARTICLE

Climbing the Regulatory Everest: A Comprehensive Guide for Banks in Addressing Climate and Environmental Risks as per ECB Guidelines

Written by Meghna Jain, Consultant

Overview

In today's world, where climate change poses unprecedented risks to the financial sector, regulatory bodies are stepping up efforts to ensure that institutions are well-prepared to tackle the challenges ahead. The European Central Bank (ECB) Guidelines released in 2020 stand as a pivotal framework, guiding banks in the effective management of climate-related risks. The Guidelines outline a comprehensive approach to Business Models & Strategy, Governance and Risk Appetite, Risk Management, and Disclosure, covering aspects from risk assessment to integration within the existing risk management processes.

Embarking on the journey towards compliance with these guidelines as regards Climate-related and Environmental Risks (C&E Risk) is paramount for financial institutions to safeguard their operations, protect their reputations, and foster trust among their stakeholders. However, navigating these guidelines and implementing them effectively can be a challenge for many institutions.

Key Challenges faced by Banks to implement ECB Guidelines

1. Interpreting the ECB Guidelines

The ECB's guidelines include a comprehensive framework addressing areas from risk assessments to reporting mechanisms, necessitating a profound comprehension. Banking institutions must remain vigilant and aligned with these established standards. However, various institutions encounter challenges in interpreting and harmonizing their existing practices with these detailed and complex guidelines.

2. Time and Resources Constraints

Effectively implementing the ECB's guidelines often demands a reallocation of resources. This may entail investing in new technologies, hiring specialized staff, and conducting comprehensive training programs. Balancing regulatory compliance with cost-effectiveness proves challenging, especially for smaller institutions. Tight compliance timelines further compound the challenge, with banks struggling to implement changes within the stipulated timeframes, particularly amidst concurrent regulatory demands and market pressures.

3. Governance Structure and Stakeholder Communication

Establishing a governance structure involves defining roles, responsibilities and policies while

effectively communicating climate-related risks and mitigation strategies to stakeholders. Achieving the recommended level of transparency in disclosures is a challenge for banks as they strive to strike a balance between protecting their reputation and complying with regulations.

4. Climate Risk Modelling and Assessment Integration

Creating accurate models for climate risk assessment requires specialized expertise. However, many banks struggle with this due to a lack of necessary skills, impacting the strength of their risk management strategies. Moreover, incorporating climate risk management into existing processes is a challenge necessitating substantial adjustments in workflows and systems.

5. Data Quality and Availability

The guidelines necessitate robust data for effective risk assessment and reporting. Many banks struggle with the quality and availability of relevant data. Obtaining accurate climate-related data for forward-looking scenarios can be a formidable challenge.

As the financial industry grapples with the evolving challenges stemming from climate change, the implementation of the ECB's guidelines emerges as a crucial step.

Recognizing and addressing these challenges head-on is imperative for banks to navigate the complex terrain of regulatory compliance. While each obstacle presents its own set of complexities, it is through strategic planning, collaboration, and leveraging expert guidance that banks can overcome these challenges and fortify their position in the face of climate-related risks.

Below is a comprehensive guide that provides a structured roadmap to assist banking institutions in implementing the ECB's Guidelines, fostering resilience and sustainability.

ROADMAP

To assess a bank's current compliance status, a comprehensive gap analysis is important. This initial step is instrumental in establishing a robust foundation for the subsequent processes. The comprehensive evaluation entails a review of the bank's operational landscape, policies, procedures and internal controls to identify any misalignments between the bank's current practices and the requirements outlined by the ECB's guidelines. This process serves as a cornerstone for prioritizing assessment efforts and approaching them accordingly.

Relevant Stakeholders and functions are identified and engaged to understand the key groups, company's functions, business model, business strategy and operations to inform the assessment strategy and process roadmap.

Setting-up a governance structure including sustainability and climate experts within the management body is an essential step to ensure effective monitoring. This step involves setting up policies and procedures for clear allocation of roles and responsibilities for C&E risks. Effective oversight is also critical to shape the bank's business strategy in the short, medium and long term, based on the identification and assessment of climate risks.

To identify, assess, integrate and effectively oversee the climate-related risks within the bank's existing risk culture, an adequate representation of the present knowledge in climate and environmental risks is required. Dedicated training and courses for the staff can be helpful for the effective implementation of new policies and procedures.

Risk Identification & Assessment

The identification and assessment of material and vulnerable exposures encompass both physical and transition risks across portfolios and risk types, including market risk, credit risk, liquidity risk, operational risk, and business risk. The materiality identification and assessment need a mix of qualitative and quantitative information. This step will involve leveraging the existing frameworks within the bank and the frameworks and data sources built within Finalyse, such as the ESG Score Metrics, the physical risk prototype, the inclusion of transition risk into the credit risk models by adjusting PDs for climate risks, or the stress testing and scenario analysis framework.

Development of Risk Appetite Statement

The qualitative and quantitative set up of risk appetite that feeds into the Risk Appetite statement based on the risk assessment ensures a long-term compliance and oversight.

Reporting and Disclosure

After developing a holistic approach to data governance for climate risks, internal reporting to disclose governance, quantitative climate and ESG metrics, vulnerable exposures and regulatory reports such as TCFD, CSRD, etc. should be developed.

6. Gap Analysis

Conducting a comprehensive gap analysis enables institutions to obtain a clear understanding of their current compliance status, prioritize remediation efforts, and develop a tailored roadmap for achieving full compliance. The gap analysis should encompass the following:

- Review of existing policies, procedures, and internal controls: Existing policies should be reviewed, and new policies should be drawn up to define the bank's strategy and goals for reducing its carbon footprint and promoting sustainable development. This step involves identifying areas where existing governance frameworks may not align with the expectations outlined in the ECB's guidelines.
- Assessment of compliance risks: Evaluate the potential financial, reputational, and operational risks associated with non-compliance.

7. Climate-related and Environmental Risks Assessment Strategy

a) Stakeholder Engagement: Internal stakeholders are identified to gain insight into the bank's business, operations, and strategic objectives in the short, medium, and long term.

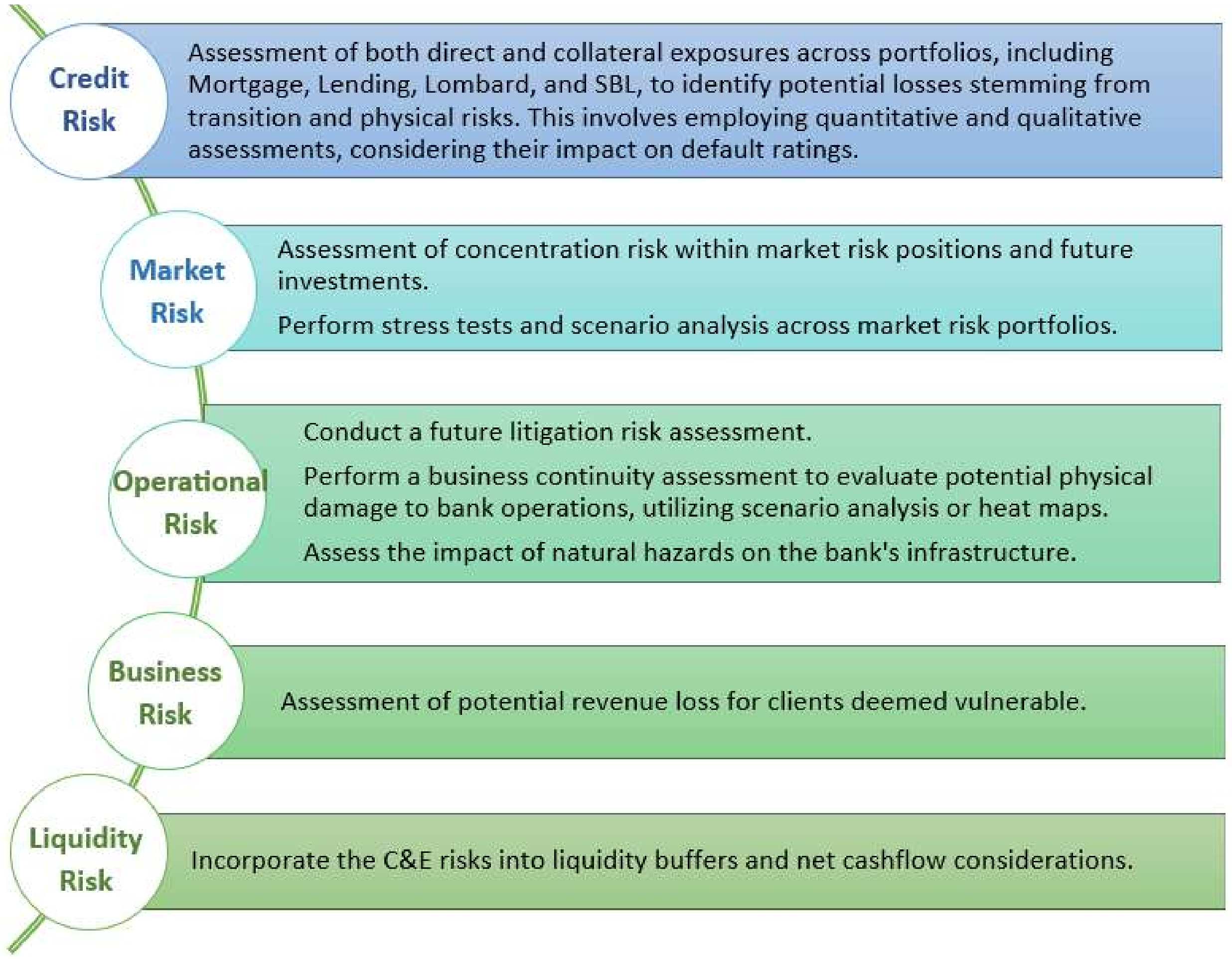
b) Establishing Clear Objectives and Targets: Define specific and measurable goals for achieving full compliance with the ECB's guidelines.

c) Developing a Detailed Action Plan: Outline the specific steps, timelines, and responsibilities for implementing each element of the compliance programme.

8. Risk Identification and Assessment

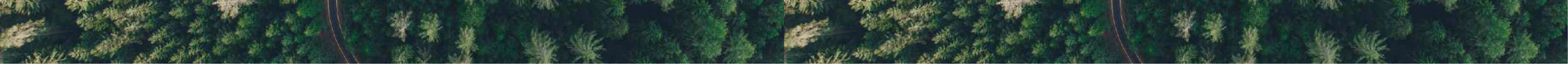
The risk identification and assessment of climate-related risks are conducted by leveraging existing risk frameworks within the bank or utilizing those available in the market, while also developing new ones as necessary. This approach allows for a focused analysis of the financial exposures for physical and transition risks across different risk categories. Climate-related and environmental risks are significant drivers of risk, with effects manifesting through various risk types. For example, a sudden ban on coal-fired power stations may push a coal company into default or a sudden carbon tax can lead to the repricing of assets, impacting the price of bonds.

The assessment should encompass the following aspects:

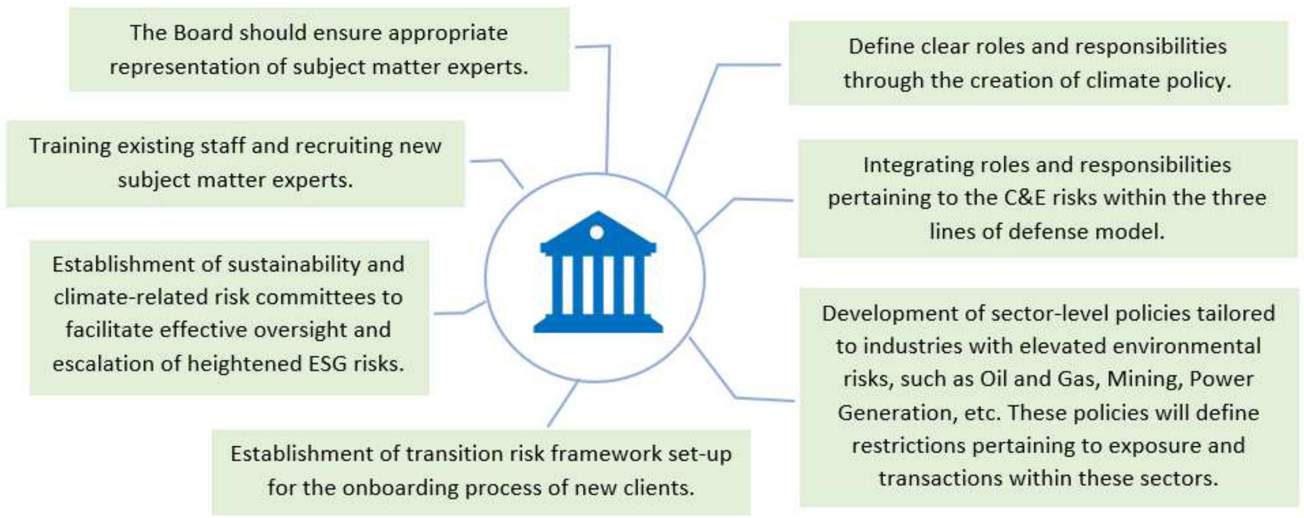


The aforementioned assessment approach can be achieved through a combination of qualitative and quantitative methodologies and frameworks, including:

- Scenario Analysis and Stress Testing across portfolios and asset classes: Utilizing scenarios outlined by the Network for Greening the Financial System (NGFS) as a benchmark, scenarios can be constructed within the banking industry.
- Physical Risk Model: Employing a quantitative model to produce heat maps and estimate potential losses for hazard risks such as floods, typhoons, tsunamis, wildfires, etc., across Mortgage and Lending portfolios.
- Integration of Transition Risk into PD Models: Incorporating transition risk into Probability of Default (PD) models to evaluate their impact on default ratings for each company within the bank's portfolio.
- ESG Scorecard: Development of a scorecard to assess Environmental, Social, and Governance (ESG) scores across counterparties, aiding in the identification of ESG performance.
- Concentration Risk Assessment: Creation of quantitative metrics to evaluate concentration risk across vulnerable geographies, sectors, and industries within the portfolio, facilitating the identification of the most vulnerable exposures.



9. Establishing the Governance Structure



10. Climate Risk Monitoring

Continuous monitoring and evaluation serve as the cornerstones for upholding the ECB's guidelines compliance, ensuring the bank's compliance program remains resilient and responsive to evolving regulations and emerging risks. This ongoing process should encompass regular audits, assessments, quantitative thresholds, and metrics, highlighting vulnerable exposure to climate risk in management reports for regular oversight.

11. Risk Appetite Statement (RAS) Formation

Qualitative Risk Appetite

The bank is encouraged to establish sector- or industry-level policies to uphold its long-term strategic objectives by defining restrictions on both existing and new transactions within vulnerable sectors and industries.

Quantitative Risk Appetite

Thresholds and quantitative metrics need to be established for monitoring purposes. For instance, setting limits on the lending exposure to vulnerable clients and conducting regular monitoring are essential components of this process.

RAS

A Risk Appetite Statement (RAS) should be established to delineate the governance structure, escalation committees, relevant policies, and quantitative thresholds.

12. Quantitative Risk Metrics

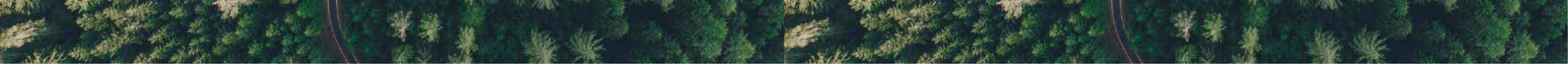
The implementation of quantitative climate risk metrics is pivotal for identifying and assessing exposure levels across material and vulnerable clients, sectors, and industries susceptible to transition or physical risks. By categorizing risks according to accepted parameters, these metrics provide a structured approach to understanding climate-related vulnerabilities. Furthermore, integrating these metrics into management meetings ensures continuous monitoring and enables informed strategic decision-making. An illustrative example of such a metric is provided below:

	2018	2019	2020 as of September 30, 2020				Climate Risk	
$ in Millions	Total $ Amount	Total $ Amount	Total $ Amount	% of Total Exposure	Funded	% of Funded Exposure	Transition Risk	Physical Risk
Metals & Mining	**16,540**	**15,891**	**13,476**	**1.7%**	**6,158**	**1.8%**		
Energy Minerals[2]	967	822	765	0.1%	199	0.1%	High	Moderate
Iron, Steel & Aluminum	9,415	8,935	6,715	0.9%	3,708	1.1%	High	Moderate
Other	6,158	6,134	5,996	0.8%	2,250	0.7%	Low	Moderate
Chemicals	**20,295**	**23,721**	**22,883**	**3.0%**	**8,124**	**2.4%**	High	Moderate
Cons Retail & Health	**95,607**	**116,346**	**112,915**	**14.6%**	**43,015**	**12.5%**		
Food Beverage & Tobacco	31,998	36,060	33,403	4.3%	15,487	4.5%	Moderate	High
Other	63,609	80,286	79,511	10.3%	27,529	8.0%	Low	Low
Real Estate	**50,883**	**55,518**	**62,489**	**8.1%**	**42,197**	**12.3%**	Moderate	High
Financial Institutions[3]	**78,376**	**94,789**	**86,172**	**11.1%**	**35,750**	**10.4%**	Moderate	Moderate / Low
Insurance	**26,020**	**24,305**	**25,990**	**3.4%**	**2,208**	**0.6%**		
Property & Casualty Insurance	5,607	5,429	6,430	0.8%	1,050	0.3%	Moderate	High
Reinsurance	6,369	6,093	5,874	0.8%	64	0.0%	Moderate	High
Other	14,045	12,784	13,686	1.8%	1,093	0.3%	Moderate	Low
Private Bank	**85,392**	**102,463**	**107,351**	**13.9%**	**70,030**	**20.4%**	Low	Moderate / Low
Public Sector[4]	**30,327**	**27,194**	**26,267**	**3.4%**	**13,723**	**4.0%**	Moderate	Moderate
Tech, Media & Telecom	**81,817**	**83,199**	**79,659**	**10.3%**	**31,136**	**9.1%**	Low	Low
Other Industries	**17,777**	**16,842**	**10,477**	**1.4%**	**5,561**	**1.6%**	Low	Low
Total	713,490	794,576	774,057	100.0%	343,690	100.0%		

Source: TCFD "Proposed Guidance on climate-related metrics, targets and transition plans in June 2021

13. Disclosures

Financial disclosures related to climate are essential as they serve to enhance transparency by providing stakeholders with clear and comprehensive insights into an organization's operational landscape, financial performance, risks, and governance practices concerning climate and environment. This transparency enables informed decision-making among investors, customers, regulators, and the public, allowing them to assess the organization's financial health, sustainability practices, and adherence to regulatory requirements. Furthermore, such disclosures play a vital role in risk management as they aid in identifying and mitigating potential risks, enhance accountability and governance by holding organizations accountable to stakehold ers, and cultivate investor confidence by demonstrating a commitment to ethical and responsible business



conduct. To embark on the path toward fulfilling disclosure requirements, organizations are encouraged to incorporate the following aspects in their disclosures:

- Align with the ECB's Expectations: Ensure that your climate risk disclosures are in line with the ECB's Guide on climate-related and environmental risks and other relevant regulations.
- Utilize Standardized Metrics: Consider incorporating standardized metrics such as the Task Force on Climate-Related Financial Disclosures (TCFD) framework or the Corporate Sustainability Reporting Directive (CSRD) for transparent reporting. For Instance, the TCFD recommended disclosures for all sectors are as follows:

Recommendations and Supporting Recommended Disclosures

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended Disclosures	**Recommended Disclosures**	**Recommended Disclosures**	**Recommended Disclosures**
a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	a) Describe the organization's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	b) Describe the organization's processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Source: TCFD "Recommendations of the Task Force on Climate Related Financial Disclosures", June 2017

- Effective Communication: Communicate your climate risk management approach and performance effectively to stakeholders, including investors, regulators, and the public. This would enable stakeholders to better understand the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks, foster an early assessment of climate-related risks and facilitate market discipline.

Conclusion

Achieving full compliance with the ECB's guidelines is essential for long-term success. This comprehensive roadmap can assist banks in navigating the intricate landscape of the ECB's guidelines on climate-related and environmental risk, enabling them to establish a robust compliance programme that safeguards their operations and protects their reputation.

How can Finalyse help?

- ESG Reporting (TCFD, CSRD, Sustainability Report)
- Risk Appetite Framework
- Establishing Risk Identification and Assessment Framework
- Establishing Governance Structure, Policies and Procedures
- Workshops
- Transition Risk and Physical Risk Assessment
- End to End Support and Guidance
- ECB Compliance

Recovery & Resolution

BRRD

Council (Directive)

Council publishes draft Directive amending MREL

The Council of the EU has published a draft Directive amending the BRRD and the Resolution establishing the Single Resolution Mechanism concerning specific aspects of the minimum requirement for own funds and eligible liabilities. This draft, referred to as the 'daisy-chain proposal,' was provisionally agreed upon by the Council and the European Parliament in December. The text was already adopted by European Parliament adopted in February 2024.

Release Date:2024-03-14

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BRRD

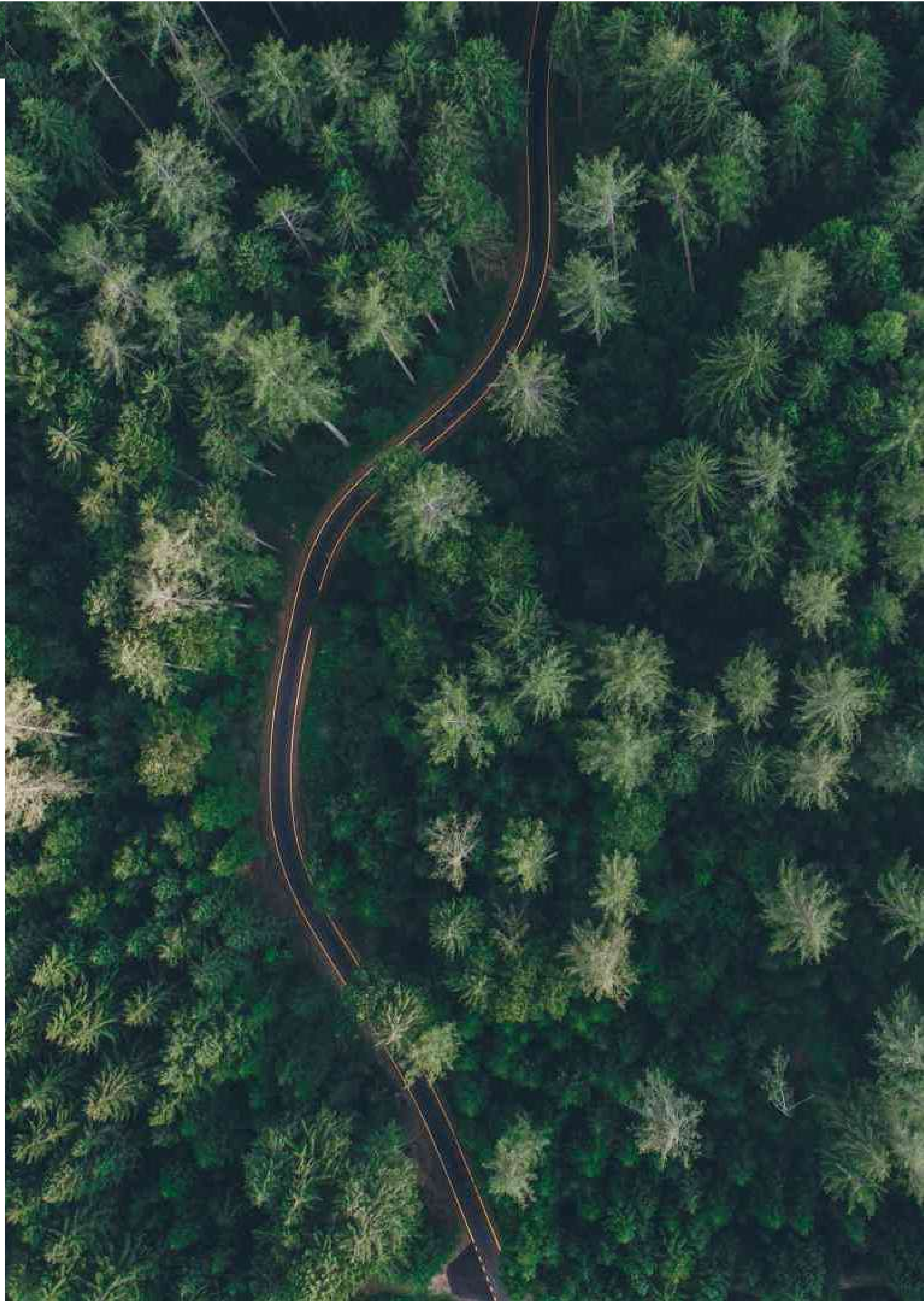
Parliament (Directive)

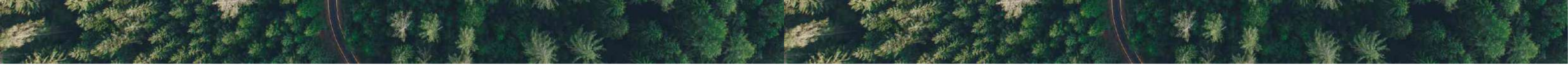
Amendment to the BRRD and the MREL

The European Parliament has announced the adoption at first reading of the "daisy-chain proposal," amending the BRRD and the Regulation establishing the Single Resolution Mechanism. This amendment focuses on specific aspects of the minimum requirement for own funds and eligible liabilities.

Release date: 2024-02-27

TA-9-2024-0088





ARTICLE

Expanded FRTB Reporting Requirements

Written by François-Xavier Duqué, Principal Consultant and Makram Merdas, Consultant.

On 11th January 2024, the European banking authority (EBA) finalized the Implementing Technical Standards (ITS) expanding the Pillar I market risk reporting requirements under the Fundamental Review of the Trading Book (FRTB) framework. The ITS introduce new templates to capture detailed information on the instruments and positions covered in the alternative standardized approach (ASA) and alternative internal model approach (AIMA). The new reporting standards are expected to apply starting 31st March 2025. This article delves into the key components of the recent updates with a focus on the ASA reporting, analyzing their potential implication on financial institutions.

Regulatory Background

Back in January 2016, the Basel Committee on Banking Supervision (BCBS) released a new standard to determine the Pillar I capital requirement for market risk, which is known as the Fundamental Review of the Trading Book (FRTB). The FRTB was developed as a response to the shortcomings in the regulatory framework following the global financial crisis of 2007-2008. The framework underwent further amendments in 2019 to provide more clarity to the boundaries between books and the treatment of internally transferred instruments for hedging purposes, alongside modifications to the methodology. The primary objective of the FRTB framework is to enhance the comparability and transparency of capital requirements for trading activities across banks and to improve the resiliency of the banking system.

In Europe, the FRTB was first integrated in the prudential framework of the EU in 2019 as part of the Revised Capital Requirements Regulation (CRR II), accounting for specific features of the European banks. Several items (as back-testing, profit and loss attribution, and risk factor modellability) were incorporated in EU law in the following years by means of Regulatory technical standards (RTS) developed by the EBA.

Despite these legislative acts, the FRTB is not binding yet in terms of own funds requirements, as the full implementation is awaiting a political agreement on the CRR3/CDR6-package. Nevertheless, the FRTB has been in force for roughly two years by means of a reporting requirement.

Current reporting requirements

The current reporting requirement are in force since September 2021 and apply only to institutions whose trading book business is above a threshold of EUR 500 million or 10% of total assets. It consists of two templates:

- a **trading book thresholds template (TBT)**, providing insights into the size of institutions' trading books and the volume of their business subject to market risk; and
- a **summary template** (MKR ASA SUM), reflecting the own funds requirements under the alternative standardized approach for market risk. Both templates must be reported on a quarterly basis.

The current summary template provides a high-level breakdown of the ASA own Funds Requirement under the **sensitivities-based method (SBM)**. The decomposition is requested along the seven risk classes (general interest rate risk, equity risk, foreign exchange risk, credit spread risk for non-securitization, ACPT and non-ACPT portfolios), across the three sensitivities used as inputs (delta, Vega, and curvature), and across the three regulatory scenarios (low, medium, and high correlation). Furthermore, the summary provides an overview of the **default risk charge** (DRC), which aims to measure the jump-to-default risk that may not be estimated through credit spread shocks under the SBM. Lastly, the summary template displays the residual risk add-on (RRAO), which must be computed for all instruments with exotic underlying assets (as longevity or weather) or those with other **residual risk** (as exotic option payoffs or multi-underlying options subject to correlation risk).

New reporting requirements

The ITS introduce several changes to the existing ASA summary template, new detailed ASA templates - to be filled by all banks - as well as new AIMA templates for the desks with permission to use to the internal model approach. In addition, the ITS introduce a template capturing information on the reclassification of instruments between the banking and trading books. The trading book thresholds, above which the reporting requirements exist, and the thresholds template (TBT) remain unchanged.

ASA templates

The **summary template** ("MKR ASA SUM") sees some limited evolutions. Firstly, columns have been added to input the own fund requirements in the selected correlation scenario. Secondly, the own fund requirements for the "main" ASA portfolio are separated from, firstly, the internal risk transfer portfolio (IRT) used to hedge interest rate risk and, secondly, positions in collective investment undertakings (CIU's) calculated using mandate-based approach. IRT and mandate based CIU portfolios are treated as standalone positions. Lastly, fields have been added to breakdown the reporting by "offsetting group" and by "scope", as explained below.

C 91.01 Alternative Standardised Approach: Summary (MKR ASA SUM)

Offsetting group:
Scope:

<table>
<tr><th colspan="22">Main ASA portfolio</th><th rowspan="5">Own funds requi. or CIUs calculated on the basis of the mandate-based approach</th><th rowspan="5">Own funds requi. for the IRT potfolio</th><th rowspan="5">Total risk exposure amount</th></tr>
<tr><th colspan="18">Positions subject to sensitivities-based method</th><th colspan="2">Positions subject to default risk</th><th>Positions subject to residual risk</th><th rowspan="4">Own funds requi. for the main ASA portfolio</th></tr>
<tr><th colspan="3" rowspan="2">Un-weighted delta sensiti-vities</th><th colspan="12">Own funds requirements in the different scenarios</th><th colspan="3" rowspan="2">Own funds requirements in the selected scenario</th><th colspan="2" rowspan="2">Gross jump-to-default (JTD) amounts</th><th rowspan="3">Gross notional value</th></tr>
<tr><th colspan="4">Low correlation scenario</th><th colspan="4">Medium correlation scenario</th><th colspan="4">High correlation scenario</th></tr>
<tr><th>Positive</th><th>Negative</th><th>Net sensitivities</th><th>Delta Risk</th><th>Vega Risk</th><th>Curva-ture Risk</th><th>Total</th><th>Delta Risk</th><th>Vega Risk</th><th>Curva-ture Risk</th><th>Total</th><th>Delta Risk</th><th>Vega Risk</th><th>Curva-ture Risk</th><th>Total</th><th>Delta Risk</th><th>Vega Risk</th><th>Curva-ture Risk</th><th>Long</th><th>Short</th></tr>
</table>

Figure 1: Headers of the ASA Summary templates – new items in green

The ITS also introduce twelve new templates providing details regarding the sensitivity-based method (SBM), the residual risk add-on (RRAO) and the default risk charge (DRC). These templates only cover the "main" ASA portfolio: the IRT and mandate based CIU portfolios are exempt from the more granular reporting.

Detailed SBM templates have been added for each of seven risk classes. They have a common structure illustrated in figure 2 below. Financial institutions are requested to provide the detail of the sensitivity to a level that allows the replication of the final calculation, as well as the interim results (weighted sensitivities). The bucketing and the level of detail requested for the (unweighted) sensitivities depends on the risk class and mirrors closely the calculation steps in accordance with the regulation. For example, for the general interest rate risk class (GIRR), for every currency (bucket), delta amounts are broken down per regulatory tenor, except for inflation and cross-currency basis risk positions, which are reported separately as totals. Similarly, for every currency (bucket), GIRR Vega amounts are broken down per option maturity and per underlying residual maturity, and as separate totals for inflation and cross-currency basis.

C 92.0X ALTERNATIVE STANDARDISED APPROACH: SBM - XXX RISK (MKR SBM XXX)

Offsetting group:
Scope:

Bucket	Unweighted sensitivities (s_k)		Curvature risk positions (CVR_k)		Sum of weighted sensitivities (ΣWS_k)		Sum of curv. risk positions (S_b)	Bucket-specific sensitivities (K_b)								
	Delta risk factors	Vega risk factors	Curvature Risk		Delta Risk	Vega Risk	Curvature Risk	Low correlation scenario			Medium correlation scenario			High correlation scenario		
			Upward net position	Downward net position				Delta Risk	Vega Risk	Curv. Risk	Delta Risk	Vega Risk	Curv. Risk	Delta Risk	Vega Risk	Curv. Risk
[detail]	[detail]	[detail]	0600	0610	0700	0710	0800	1000	1010	1020	1030	1040	1050	1060	1070	1080

Figure 2: Headers of the new detailed ASA Summary templates (details in green depend on the risk class)

In the new **residual risk add-on template** (MKR ASA RRAO), financial institutions are asked to allocate the notional amount of positions subject to residual risk according to the most relevant asset class and the type of residual risk (type of exotic underlying or exotic payoff). A breakdown of the exempted positions (listed, centrally cleared or back-to-back instruments) is also requested according to the type of residual risk).

Finally, in the three **default risk charge templates** (MKR ASA DRC1 to DRC3), financial institutions are requested to break down gross and net jump-to-default amounts by type of instrument and by assumption regarding the LGD as illustrated in figure 3.

C 94.0X Alternative Standardised Approach: Default risk charge (MKR ASA DRCX)

Offsetting group:
Scope:

		Instruments (for ACPT : with breakdown into tranched and non-tranched products)					
		Gross JTD amounts		Net JTD_{long} amounts (not risk-weighted)	Net JTD_{short} amounts (not risk-weighted)	Weighted-to-Short ratio (WtS)	Own funds requirements
		Long	Short				
		0010	0020	Breakdown by CQS or risk weight band / unrated / defaulted	Breakdown by CQS or risk weight band / unrated / defaulted	...	...
...	Bucket / combination of counterpaty, instrument type, seniority						

Figure 3: Headers of the new detailed ASA DRC templates (details in green depend on whether instrument is securitization, non-ACPT or ACPT)

AIMA templates

Institutions with an AIMA permission must fill the AIMA specific templates listed below, on top of the ASA templates, allowing a comparison between both approaches.

Template root	Description
MKR AIMA SUM	Summary template giving the expected shortfall (ES) measure and stress scenario (SS) risk measure for modellable and non-modellable risk factors respectively.
MKR AIMA DRC	Two templates breaking down the default risk charge per issuer type according to the PD and the LGD.
MKR AIMA CORR	Two templates zooming on positions in and correlations between the 25 most significant issuers
MKR AIMA RFET	Result of the risk factor eligibility test
MKR AIMA SP	Information on stress periods used in the calculation of the stress scenario risk measures (SSRM)
MKR AIMA DRM	Daily risk measures of ES, SS and DRC
MKR AIMA PES	Partial expected shortfalls used as an input to the ES measure
MKR AIMA BTI	Results of the daily back-testing at institution level
MKR AIMA BTTD	Results of the daily back-testing at trading desk level and P&L attribution test
MKR AIMA SSRM	Two templates with a breakdown of the stress scenario risk measures and information on the number of risk measures
MKR AIMA TDS	Information regarding the trading desk structure
MKR AIMA PL	Daily profit and loss, allocated by risk class

"Offsetting group" and "scope" requirements

Most templates contain header fields allowing the breakdown of the reporting by "offsetting group" or by "scope".

When institutions are authorized to offset positions across entities, these entities are referred to as an 'offsetting group' (OG). The templates must always be filled for the entire banking group, in which case the Offsetting Group field is set to "sum of offsetting group" or simply "single offsetting group" where there is only one offsetting group. The ITS describe conditions under which the templates must additionally be filled at offsetting group level, in which case the field is set to "offsetting group 1", "offsetting group 2", etc. This is the case, for example, for any offsetting group consisting of more than one legal entity. Conversely, single entity offsetting

groups are exempt from reporting when they contribute for less than 5% of the group own funds requirements, when the offsetting group has an AIMA permission, or when reporting to EU supervisors is already done locally.

The scope field is present on ASA templates only. When institutions have an AIMA permission, the scope field allows them to fill in the ASA templates separately for ASA portfolios and AIMA portfolios (recall that ASA templates must always be filled in for all portfolios for comparison purposes, even those authorized under AIMA). In such cases, the ASA templates are typically filled for 3 different scopes: for the ASA portfolios, the AIMA portfolios, and the consolidated portfolio. Note that when only one offsetting group has an AIMA permission, the AIMA scope is reported only at the consolidated level for the "sum of offsetting group" to avoid repetitions.

Annex VII to the ITS provides practical examples of how these two fields should be used.

Reclassifications of instruments between books

CRR2 introduced a revised framework for allocating position to the trading book and the banking book, including documentation and monitoring requirements. The ITS introduce a template (MOV) capturing information regarding the reclassification of instruments between books, including those from preceding reporting periods to the extent the instruments are still "alive". The requested information includes the date of reclassification, the origin and destination regulatory books, the reason for reclassification, and the impact of the reclassification on own fund requirements. Annexe VI contains several examples of inputs in the MOV template with explanations.

Reporting Frequency

Own funds requirements under ASA must be calculated at least monthly, while calculations in the context of AIMA must be performed more frequently. Reporting on own funds and own funds requirements continues to be reported quarterly, specifically on 31st March 30th June 30th September, and 31st December.

Finalyse solution

While the changes in the reporting requirements do not alter the main objectives of the regulatory framework, they present a challenge for banks by increasing reporting granularity. The reporting amendments may require further data analysis potentially impacting the data infrastructure, which involves adjustments to the calculation engines to achieve the required level of granularity. At Finalyse we have fine-tuned our excel-based SBM calculation engine to adapt to the latest changes and ensure that our clients meet the regulatory requirements.

Appendix

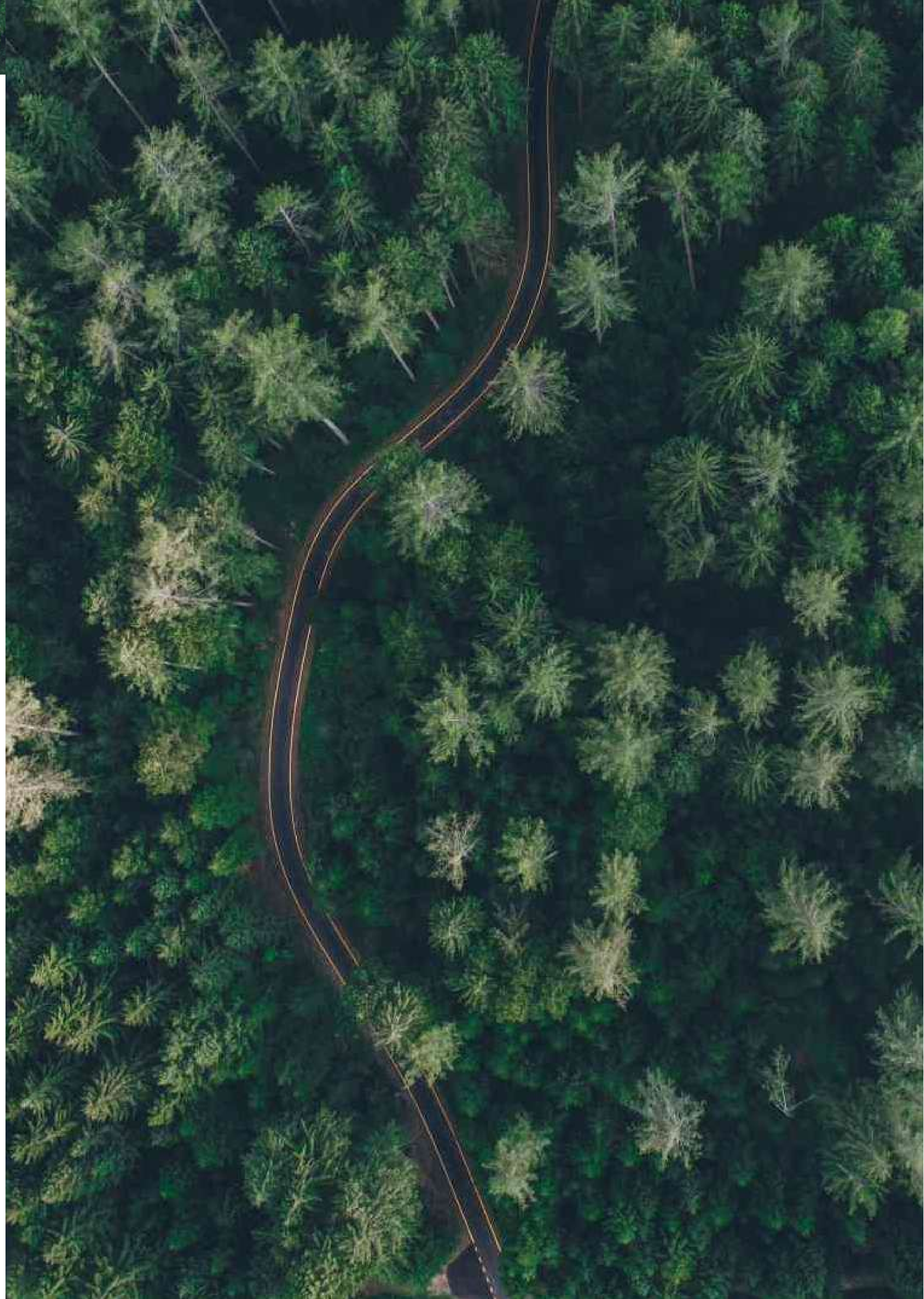
Alternative Standardized Approach ASA Templates

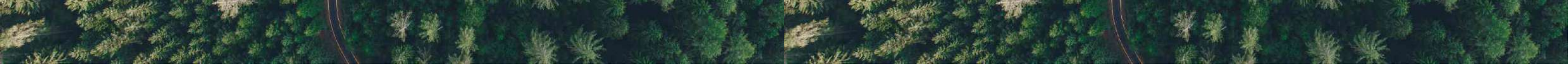
Current	New
C 91.00 Alternative Standardized Approach: Summary	C 91.01 Alternative Standardized Approach: Summary

Sensitivity Based Method SBM Templates	
C 92.01	General Interest Rate Risk (GIRR)
C 92.02	Credit Spread Risk For Non-securitisations (CSR)
C 92.03	Credit Spread Risk For Securitisation Not Included In The Alternative Correlation Trading Portfolio (Non-actp CSR)
C 92.04	Credit Spread Risk For Securitisation Included In The Alternative Correlation Trading Portfolio (ACTP CSR)
C 92.05	Equity Risk (EQU)
C 92.06	Commodity Risk (COM)
C 92.07.1	Foreign Exchange Risk (FX) - Delta and curvature risk (FX)
C 92.07.2	Foreign Exchange Risk (Fx) - Vega risk

Residual Risk Add-On Templates	
C 93.00	Residual Risk Add-On

Default risk charge Templates	
C 94.01	Instruments other than securitizations, not included in the alternative correlation trading portfolio
C 94.02	Securitizations, not included in the alternative correlation trading portfolio (non-ACTP)
C 94.03	Instruments included in the alternative correlation trading portfolio





ARTICLE

Building an Integrated Data Layer consistent with ECB's BIRD initiative

Written by Sehaj Benipal, Senior Consultant,

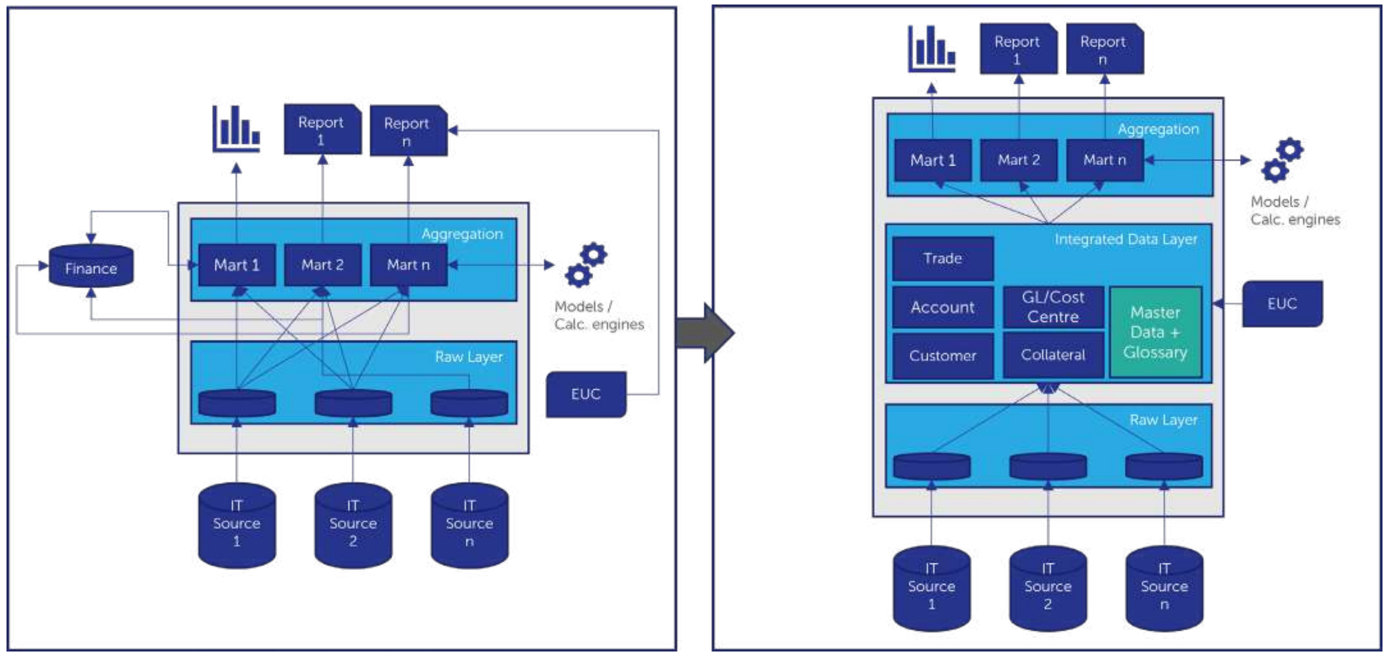
with the support of Hugo Weitz, Principal Consultant.

As Banks and Financial Institutions drive towards compliance with BCBS-239 principles, documenting data lineage and mapping process flows for relevant risk metrics forms a big part of the overall requirements. However, we cannot fail to notice that these data transformation and aggregation processes are often needlessly inefficient and complex. This can be pinned down to the increase in the complexity and the sheer number of reporting requirements by regulators over the years. This has in-turn resulted in a buildup of technical debt in the overall architecture and design of the solutions that facilitate the computation of said metrics.

The natural next step in the journey towards more accurate and precise risk reporting is to leverage BCBS-239 features like data lineages, glossaries, reference datasets etc. to create an enterprise-wide integrated data layer that can source, transform, enrich, and store all underlying facts and dimensions in a manner that makes sense to Risk analysts and managers.

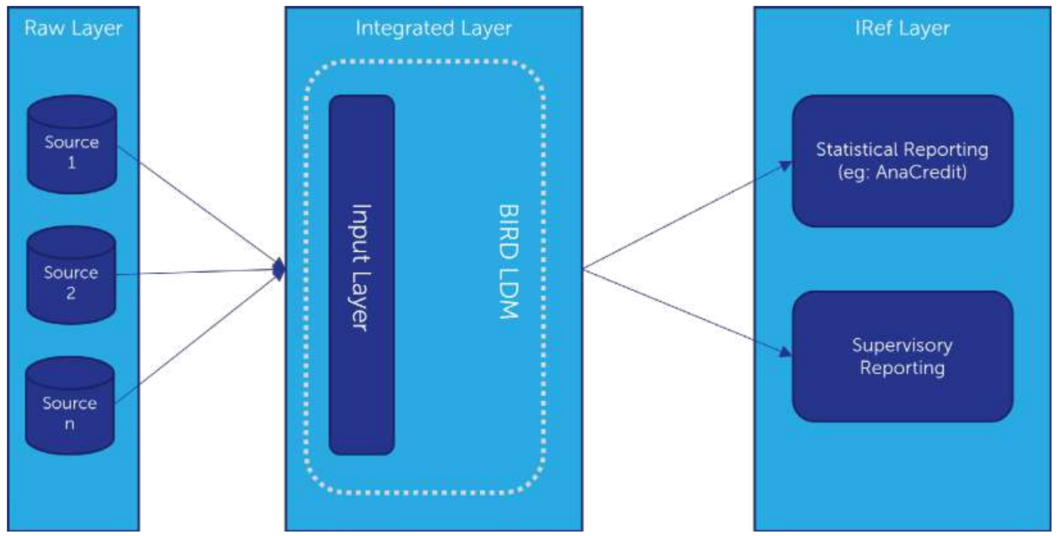
What is an Integrated Data Layer?

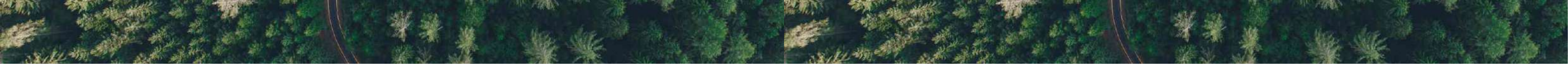
The idea behind building a new data layer is to introduce a degree of normalisation of data by organising all source information into a standardised format supported by a logical data model that can cater for all downstream calculation and reporting needs. This information can then be further enriched semantically by marrying it to a centralised data glossary and reference data. This is a superior way of organising information in your data warehouse and can eliminate all duplication of transformation rules while also simplifying the control framework required to maintain data integrity across the risk reporting process.



ECB's Banks' Integrated Reporting Dictionary (BIRD)

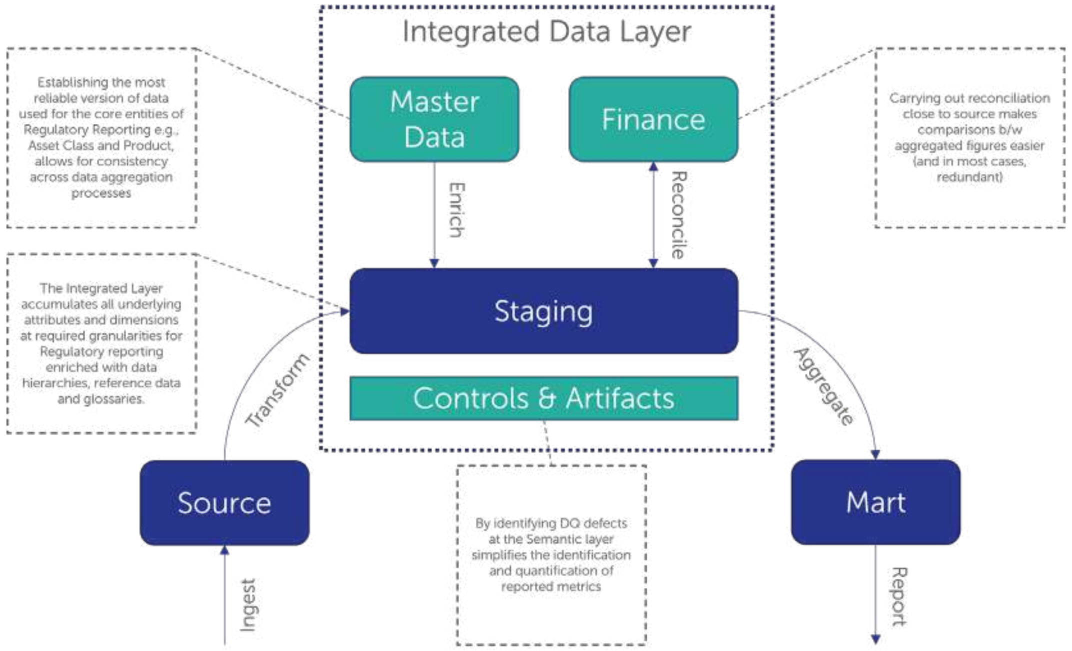
The European Central Bank's BIRD initiative intends to tackle the same problem. Recognising the increasing complexity and volume of regulatory reporting, the service intends to create an integrated dictionary – completed with an overarching logical data model that Banks and FIs can map their physical data elements to with the objective of standardising their reporting frameworks. The scope of BIRD is not just limited to risk reporting but encompasses the entire breadth of regulatory reporting for Banks. The BIRD data model also intends to function as an all-encompassing input layer for ECB's proposed Integrated Reporting Framework (IReF), which will integrate the European regulator's statistical requirements for Banks into a single standardised reporting framework applicable across the Euro area (e.g.: BSI and MIR statistics, SHS-S, AnaCredit and FinRep). It needs to be noted that BIRD is not a regulatory requirement but merely a free-to-use service. However, as the project itself highlights, the benefits of modelling a data management framework on its design principles are hard to understate. Building an Integrated Data Layer incorporating BIRD's design principles and data models is a sure-fire way to eliminate redundancies and improve the overall quality and accuracy of your data.





Timelines for IRef Implementation

Unlike BIRD, the IRef is expected to be a mandatory regulatory requirement. The ECB is currently in the process of fine tuning and clarifying additional topics relating to IRef (and BIRD). The latest draft regulation is expected in 2024 and it will be subject to a public consultation before it is finalized and adopted. The regulation will then replace the existing legal provisions on the collection of datasets within IRef, and the relevant existing ECB regulations will be repealed or amended, as applicable.
Benefits
Looking at the features required to solve for BCBS-239 compliance along with the BIRD LDM, it would not be wrong to assume that a lot of the ingredients required for engineering such a solution are already in place. However, building an Integrated Layer that spans across the breadth of the enterprise is not a small undertaking. So why build one?



1. Reduced Redundancies & easier Change Management

Possibly the most important benefit of creating an Integrated Data Layer is the de-duplication of various transformation, validation and/ or aggregation steps. Let us say for example an organisation has a dedicated database for capturing and storing Collateral data. In the absence of any shared data layer on top of this raw database, the same data attributes from this Collateral database would be queried for modelling Loss Given Default (LGD), reporting Loan to Value ratios across products and numerous other processes. In order to maintain compliance, each of these processes would have to define and document business transformation and validation rules and perform reconciliations to source independently. This is a typical example of technical debt that is accumulated across a data management solution's lifetime, which eventually turns the change management process for any new change upstream into a quagmire.

An Integrated Layer addresses this problem by implementing all possible business transformation and validation logic at the source to Integrated Data Layer level, eliminating redundancies and also making change management a one-step process as long as there is consensus amongst downstream consumers.

2. Controls & Validation

As the requirements around having adequate controls across the lineage of a metric have become more stringent, merely performing additional controls at every data transfer and/or transformation step may not have the intended benefit of improving the accuracy and integrity of the underlying data.

Again, using Collateral as an example, let us say there are two separate processes – the first one intends to use Collateral Value from the underlying database to calculate the Loan to Value of a portfolio. The second process queries the same attribute, albeit independently, but to calculate the Foundation LGD as per the Basel IV requirements. In cases where the collateral values are stale (older than the date of sanctioning of the loan), they can be flagged easily by the first process, by simply having a validation rule that compares the date of sanctioning of the loan with the date of the last valuation capture. However, this might be missed by the second process, as it would not need to fetch the underlying attribute for the loan commencement date in the first place to calculate the Foundation LGD.

Indeed, an Integrated Layer also allows for collating the validation rules and various other controls that have been applied to the same attribute by different processes, to create a more holistic view of data quality and highlight defects for all downstream consumers.

3. Centralized Reference Data and Glossary

Establishing the most reliable version of data used for the core entities of regulatory reporting e.g., Asset Class, Product, etc. allows for consistency across the enterprise data aggregation process. Practically, how one business unit or a portfolio defines an attribute is understood in the same way across the board.

Conclusion

Although building an Integrated Data Layer is not a requirement for BCBS-239 compliance or a mandate by ECB's BIRD, banks have a unique opportunity to leverage the work that they are currently undertaking in this space as a starting step to build a strategic data warehouse that can cope with the increasingly granular reporting requirements from regulators in a manner that is true to the spirit of the BCBS-239 regulation. BIRD is nevertheless an additional incentive to adopt this best practice, putting additional pressure on the banks choosing to maintain silos of data while having difficulties to justify inconsistencies across reporting streams.

Bringing in depth regulatory reporting understanding to the data world, Finalyse is best positioned to help banks leveraging the most from the data quality improvements and process efficiency gain while engaging in such a journey. Do not hesitate to ask for a free workshop to know more and analyse how building an Integrated Data Layer could solve your particular challenges.

ARTICLE

Recalibration of IRRBB stocks

Written by Denis Healy, Senior Consultant

On 12th December 2023, the Basel Committee on Banking Supervision ("BCBS") issued a public consultation ("the paper") titled 'Recalibration of shocks for interest rate risk in the banking book', for comment by 28 March 2024.

The current standards, published in April 2016, are intended to safeguard against the risk to bank's capital and earnings from interest-dependant products. This was achieved through the application of global shock parameters to bank's economic value and net interest income projections.

While the current standards already highlight the need for periodic recalibration of the shocks applied, the turmoil in Banking experienced in March 2023 has brought the effectiveness of the standards into sharp focus. The rapid increase in interest rates, beginning in Q3 2022 and peaking in Q3 2023, left many banks with a maturity mismatch between long-term investments made in a low interest rate environment and demand for increased deposit rates. While European markets remained relatively stable throughout the period, the impacts were greater in the US with two banks - Silicon Valley Bank and Signature Bank - closing.

While the BCBS confirmed that a periodic calibration review was already underway at the time of the recent turmoil, these events have brought additional focus on the exercise.

Calibration Methodology

Current Approach

The current calibration methodology uses the product of global shock parameters and average interest rates across currencies and applies floors, caps and rounding to the results.

- Average interest rates are calculated using daily historical interest rate data for each currency across nine tenors (3M, 6M, 1Y, 2Y, 5Y, 7Y, 10Y, 15Y, 20Y) for the period between January 2000 to December 2015.
- To calibrate the global shock parameters, a series of rate changes using rolling six-month relative percentage changes for each of the nine tenors and for each currency is produced. The changes in rates are calculated for each day by dividing the difference between the current rate and equivalent rate in six months by the current rate, expressed in basis points. This produces a series of data points for each currency and tenor, from which the 99th and 1st percentiles are calculated and averaged (using absolute values) to produce local shock parameters. Short, long, and parallel parameters are produced by taking the average of the corresponding tenors (shown in Table 1), with global parameters calculated by taking a weighted average of the local parameters based on Purchasing Power Parity GDP. The existing global shock parameters are also shown in the table below

Scenario	Combination of Tenors	Global Shock Parameters
Short	3M, 6M, 1Y	85%
Parallel	2Y, 5Y, 7Y	60%
Long	10Y, 15Y, 20Y	40%

Table 1: Scenario Tenors and Shocks

- The floors, caps and rounding applied are shown in Table 2 below.

Measure	Value (bps)
Floor	100
Cap – Short	500
Cap – Parallel	400
Cap – Long	300
Rounding	(nearest) 50

Table 2: Floors, Caps & Rounding

Issue

While the current methodology produces reasonable results for the original time series, many markets have experienced interest rates close to, if not equal to, 0% in recent years. This resulted in an issue during the recalibration exercise when the time series was extended to cover the total period from January 2000 – January 2022.

As the current methodology for calculating shock parameters uses a series based off relative change in interest rates, small movements in rates can produce huge relative changes in a low interest rate environment, leading to unrealistic time series and the overapplication of caps which bring into question the validity of the standard.

Proposed solution

To solve this issue, the BCBS have proposed the following changes:

1. Amend the methodology used to record interest rate changes for the data series.
2. Introduce local shock parameters for each currency in place of the existing global shock parameters to better reflect historical rate changes for specific currencies. This would be done by removing the final step in the current methodology, where a weighted average of the local parameters is used to produce global parameters, and instead applying the local parameters for each country.
3. Use the 99.9th percentile value in place of the current 99th percentile to increase conservatism.

These would be incorporated into a new methodology which records absolute change in interest rates instead of relative change when producing the time series. For each scenario and currency, the average of the absolute rate changes across the corresponding time buckets (allocation in Table 1 remains unchanged) would then be calculated and used to produce a new series, from which the absolute value of the 99.9th percentile of each series would be used as the interest rate shock for each combination of scenario and currency i.e. local shock parameters.

It should be noted that the methodologies used for calculating average historical interest rates, as well as the application of floors, caps and rounding would remain unchanged.

Impact Assessment

Using the tables provided in the paper, we have performed a high-level impact assessment of the changes proposed.

Data Series

The paper does not include any information which could be used to accurately assess the impact of the extended data series on the shocks produced by the existing methodology. This is likely due to the problems encountered by the current methodology when capturing interest rate changes during periods when rates are close to zero. Therefore, any comparison between the data series using the old methodology alone would likely be nonsensical. As a result, observations concerning the impact of the extended data series on results will be made in line with other factors.

Percentile Change

Using tables 6 and 8 from the paper, represented by Tables 3 and 4 below, we can compare the impact of the change in percentile for two output tables using the new methodology and extended data series. As expected, a large proportion, c.57%, of the shocks increase, with an average increase of 134bps across all scenarios. As expected, there are no decreases resulting from the proposed percentile change.

	ARS	AUD	BRL	CAD	CHF	CNY	EUR	GBP	HKD	IDR	INR
Parallel	400	350	400	200	150	300	250	300	200	400	350
Short	500	450	500	250	250	300	350	400	350	500	450
Long	300	300	300	200	200	300	200	250	200	300	250
	JPY	KRW	MXN	RUB	SAR	SEK	SGD	TRY	USD	ZAR	
Parallel	100	250	400	400	300	300	150	400	200	350	
Short	100	350	500	500	350	400	250	500	300	500	
Long	100	250	200	300	250	200	200	300	250	300	

Table 3: Proposed Methodology, 99.9th percentile, extended dataset 2000–2022

	ARS	AUD	BRL	CAD	CHF	CNY	EUR	GBP	HKD	IDR	INR
Parallel	400	300	400	150	150	250	200	250	200	400	250
Short	500	400	500	250	200	250	300	350	300	450	400
Long	300	200	300	150	150	300	150	150	150	300	200
	JPY	KRW	MXN	RUB	SAR	SEK	SGD	TRY	USD	ZAR	
Parallel	100	200	400	400	250	250	150	400	200	250	
Short	100	300	500	500	300	350	200	500	250	400	
Long	100	200	150	300	250	150	200	300	150	200	

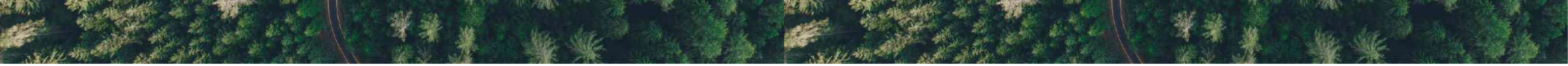
Table 4: Proposed Methodology, 99th percentile, extended dataset 2000–2022

However, while the increase in percentile used will obviously reflect increased conservatism, these results (Table 3) should also be compared against the results of the existing approach, shown in table 1 of the paper and represented by Table 5 below. When comparing the shocks in Table 3 (using the new calibration methodology, extended data series and increased percentile) against the existing shocks in Table 5, the impact is significantly reduced, with only c.41% of shocks increasing and c.13% decreasing. This is a reduction of 16% in the number of shocks which increase. Of the shocks affected, the average increase is 205bps, while the average decrease is c.88bps.

	ARS	AUD	BRL	CAD	CHF	CNY	EUR	GBP	HKD	IDR	INR
Parallel	400	300	400	200	100	250	200	250	200	400	400
Short	500	450	500	300	150	300	250	300	250	500	500
Long	300	200	300	150	100	150	100	150	100	300	300
	JPY	KRW	MXN	RUB	SAR	SEK	SGD	TRY	USD	ZAR	
Parallel	100	300	400	400	200	200	150	400	200	400	
Short	100	400	500	500	300	300	200	500	300	500	
Long	100	200	300	300	150	150	100	300	150	300	

Table 5: Current Methodology, 99th percentile, original dataset 2000-2015

While an increase in the percentile will increase conservatism, without a table demonstrating the impact of the proposed percentile change with all other factors remaining constant i.e. using the current calibration approach and data series, it is unclear how much of an impact this change actually has on the final shock parameters.



Methodologies

Based off the output tables provided by the BCBS in the paper, the best approach to assess the revised calibration methodology is by comparing tables 1 and 7 of the paper, represented here by Table 5 and Table 6 respectively. Table 5 (above) reflects the shock parameters arrived at using the current approach, while Table 6 (below) uses the proposed methodology (including percentile change) applied to the original data series. By comparing output tables using the same input data series, we can assess the level of additional conservatism associated with the new methodology.

	ARS	AUD	BRL	CAD	CHF	CNY	EUR	GBP	HKD	IDR	INR
Parallel	N/A	350	400	200	200	300	250	250	200	400	350
Short	N/A	450	500	250	250	300	350	450	300	500	500
Long	N/A	300	300	150	150	300	150	150	200	300	250

	JPY	KRW	MXN	RUB	SAR	SEK	SGD	TRY	USD	ZAR
Parallel	100	250	400	400	300	300	150	400	200	350
Short	100	350	500	500	350	400	150	500	250	500
Long	100	250	200	300	250	200	250	300	250	300

Table 6: Proposed Methodology, 99.9th percentile, original dataset 2000-2015

Similar to the observations made earlier when comparing the impact of the percentile change against current shocks, we see an increase in c.37% of shocks and decrease in c.15% of shocks, with almost 50% remaining unchanged. Across all scenarios, the average increase in shocks is 175bp, with an average decrease of 70bp.

While almost half of the shocks remain unchanged, the proposed changes to methodology and percentile lead to increases in over a third of the shocks, suggesting additional conservatism in the proposed methodology.

It is worth noting that the impacts seen in the previous comparison between the proposed methodology with extended dataset against the current shocks are only slightly greater in impact i.e. c.41% of shocks increase instead of c.37% and c.13% decrease instead of c.15%. Similarly, the average increase experienced is 205bps compared to 175bps, while the average decrease is c.88bps instead of 70bps. This implies that the increase in shocks is primarily driven by the change in methodology, with the extension of the dataset having a much smaller impact on results.

Additional Discussion Points

Caps

The consultation paper also discusses the impact of the caps applied to the interest rate shocks and proposes the following addition to the standard:

"Supervisors may, applying national discretion, set a higher floor under the local interest rate shock scenarios for their home currency, or a higher cap, resulting in more conservative shocks. [...]"

Tables 7 and 8 below, representing tables 4 and 9 from the paper, present the uncapped shocks produced using the current and revised methodologies. A legend has also been provided to explain the colour coding applied.

	ARS	AUD	BRL	CAD	CHF	CNY	EUR	GBP	HKD	IDR	INR
Parallel	2018	310	692	204	110	224	180	225	177	880	431
Short	2858	440	980	290	155	317	255	319	251	1246	611
Long	1345	207	461	136	73	149	120	150	118	586	288

	JPY	KRW	MXN	RUB	SAR	SEK	SGD	TRY	USD	ZAR
Parallel	53	283	452	521	216	198	138	896	197	520
Short	76	401	641	738	306	280	196	1270	279	737
Long	35	188	301	347	144	132	92	597	131	347

Table 7: Current Methodology, 99th percentile, original dataset 2000-2015: Caps

	ARS	AUD	BRL	CAD	CHF	CNY	EUR	GBP	HKD	IDR	INR
Parallel	3900	350	1800	200	150	300	250	300	200	550	350
Short	7950	450	1000	250	250	300	350	400	350	550	450
Long	4600	300	2700	200	200	400	200	250	200	650	250

	JPY	KRW	MXN	RUB	SAR	SEK	SGD	TRY	USD	ZAR
Parallel	100	250	800	2000	300	300	150	2000	200	350
Short	100	350	800	2000	350	400	250	1850	300	500
Long	100	250	200	600	250	200	200	1600	250	350

Capped in:

Both Methodologies Proposed Methodology Current Methodology

Table 8: Proposed Methodology, 99.9th percentile, extended dataset 2000–2022: Caps

As can be seen from the above tables, 18 shocks are capped in both methodologies, while totals of 22 and 19 shocks are capped overall in Tables 7 and 8, representing the current and proposed methodology respectively.

Across all scenarios, the average decrease in shocks resulting from the cap using the current methodology is 464bps, while the corresponding figure is 1,505bps for the proposed methodology, after applying rounding. However, it must be noted that in both cases, the largest 4 capped currencies are responsible for 89% and 95% of the overall decrease in shocks for each methodology, respectively. Moreover, 3 of the 4 currencies are the same for both methodologies, i.e. ARS, BRL, and TRY, suggesting that the influence of the caps is concentrated on a small number of currencies.

This suggests that the additional flexibility permitted to regulators by the proposed change may be sufficient to curb the over influence of the cap.

Caps - Current Methodology			
Currency	Reduction	%	Cumulative
ARS	-5000	49%	49%
IDR	-1550	15%	64%
TRY	-1550	15%	79%
BRL	-950	9%	89%
RUB	-400	4%	93%
ZAR	-400	4%	97%
MXN	-200	2%	99%
INR	-150	1%	100%

Proposed Methodology			
Currency	Reduction	%	Cumulative
ARS	-15250	53%	53%
BRL	-4300	15%	68%
TRY	-4250	15%	83%
RUB	-3400	12%	95%
MXN	-700	2%	98%
IDR	-550	2%	99%
CNY	-100	0%	100%
ZAR	-50	0%	100%

Table 9: Influence of caps across all scenarios

Non-parallel Shocks
As part of the recalibration exercise, the committee is also reviewing the impact of the proposed new methodology on scenarios where banks are required to apply non-parallel shocks. These include the short up, short down, steepened and flattener scenarios. It is yet to be concluded whether the proposed change in methodology would require any update to the formulas used.

Impact Assessment
As part of this consultation exercise, a quantitative impact assessment of the revised calibration of the shocks factors and updated methodology will be undertaken using data collected from banks. The results will feed into the final version of the updated standard.

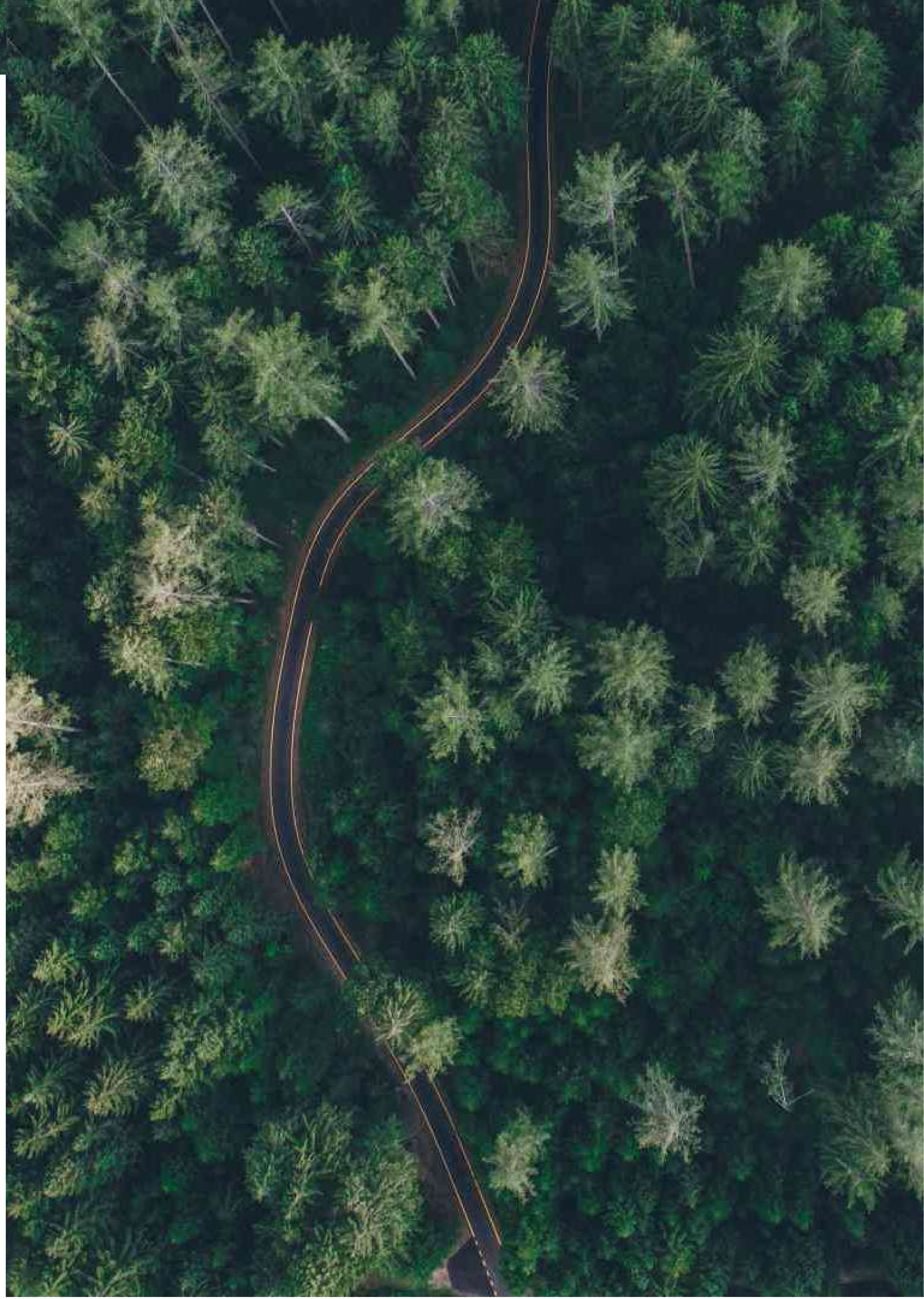
Conclusion

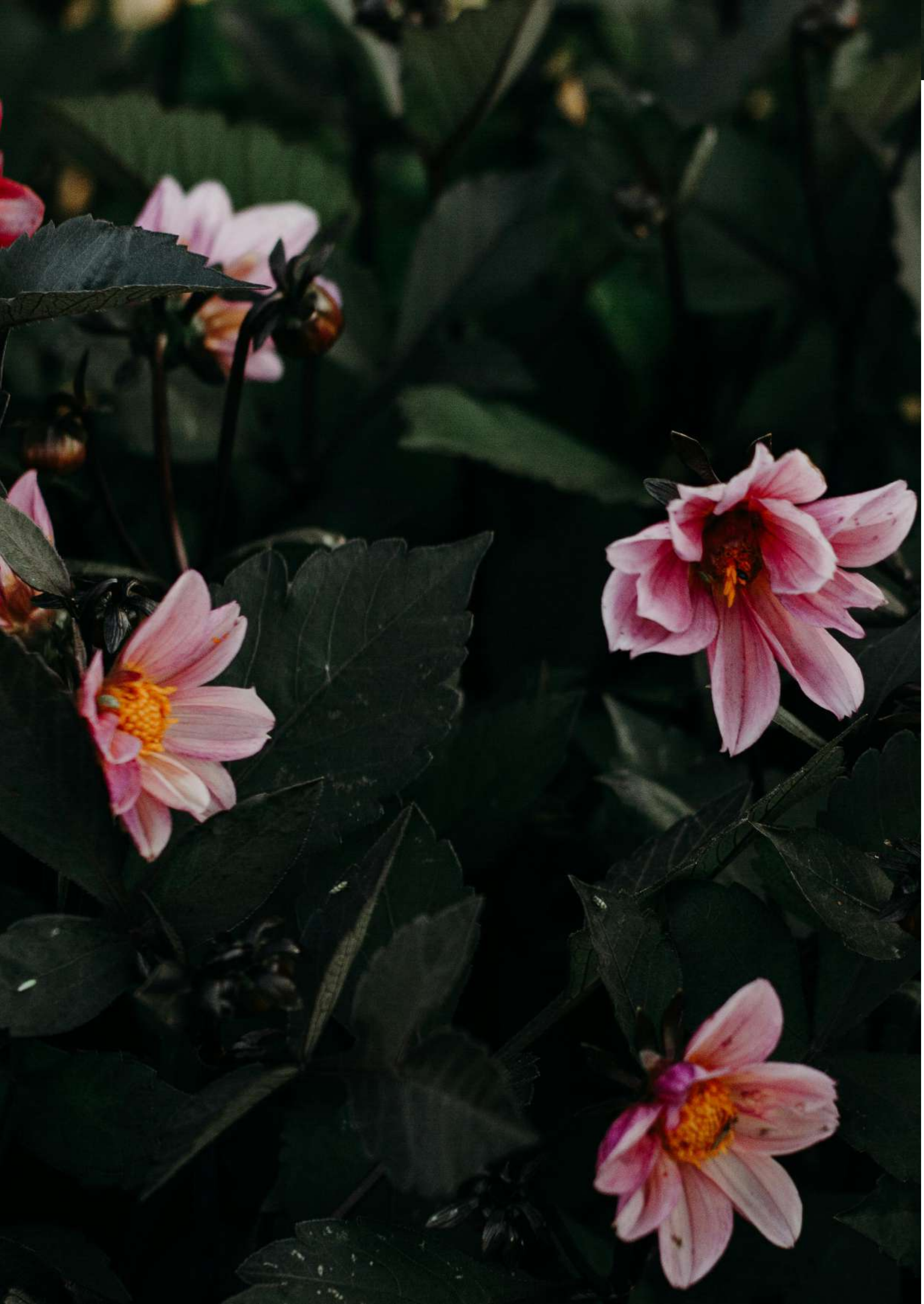
While existing standards ensured European banks were able to navigate through the recent turmoil, questions remain over the stability of banks in some other jurisdictions during such periods of stress. As such, the extension of the input data series for shock calibration and discussion over the application of the cap is welcome.

While additional data would be welcomed to complete a more granular impact analysis, a high-level review suggests that the proposed methodology changes and extension of the input dataset will result in additional conservatism for most currencies, with local shock parameters introduced to reflect currency fluctuations more accurately than global parameters. Despite this added conservatism, shocks will remain consistent for most currencies.

The introduction of more flexibility in the application of the cap for supervisors is a welcome change and reflects the concentrated nature of the application of the cap.

Finally, we welcome the results of the quantitative impact assessment using real data collected from banks and the opportunities for further analysis that it will bring.





Insurance

Insurance Regulatory Timeline

2024 Q2

Solvency II
Report
Financial Stability Report (first half covering all sectors and risks, second half focused on key topic
Document release: tbd

Insurance Supervision
Peer Review
On supervisory practices relating to some aspects of the prudent person principle PPP
Document release: tbd

Insurance Sress Testing
Stress Testing
The EIOPA will launch the 2024 sectoral Stress Testing for Insurance Undertakings
Document release: 2 April 2024

2024 Q3

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

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

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

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

Insurance Sress Testing
Stress Testing
Deadline for the Submission of the Stress Testing results by Undertakings
Document release: August 2024

IORP
Report
Annual IORP statistics publication
Document release: tbd

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

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

2024 Q4

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

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

Guidelines
Development of a Proportionality Rulebook
Document release: tbd

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

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

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

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

Report
Prepare Annual Report on PEPP Market
Document release: tbd

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

Report
On roundtable on defined contribution pensions
Document release: tbd

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

Stress Testing
Publication by the EIOPA of the 2024 sectoral Stress Testing results for Insurance Undertakings
Document release: Dec 2024

Risk Management

Solvency II
Commission (RTS)

Technical provisions and basic own funds under Solvency II

The Official Journal of the EU has published an implementing Regulation laying down technical information for the calculation of technical provisions and basic own funds by insurance and reinsurance undertakings. In accordance with Solvency II, the regulation establishes uniform conditions for the calculation of relevant risk-free interest rate term structures, fundamental spreads, and volatility adjustments. The technical information, based on market data from the end of December 2023, is to be used for reporting with reference dates from 31 December 2023 until 30 March 2024.

Release date: 2024-02-07
Application Date: 2024-02-08

(EU) 2024/456

IDD
EIOPA (Report)

Second IDD Application Report

The EIOPA has published its second report on the application of the IDD. The report evaluates changes in the insurance intermediaries' market structure, patterns of cross-border activity, quality of advice, and the impact on small and medium-sized enterprises. Over the past two years, the number of registered intermediaries has decreased, and while some Member States have seen improved advice quality, others show shortcomings. Challenges in applying new sustainability rules and addressing conflicts of interest, especially regarding commissions, have been identified. Cross-selling practices, such as bundling mobile phone insurance with a device, may potentially harm consumers.

Release date: 2024-01-15

EIOPA-BoS-23-477

Solvency II
EIOPA (Report)

Internal Models for non-life Underwriting Risk

The EIOPA has published a report with the results of the Europe-wide study on non-life underwriting risk in internal models. The study analyzed 75 European insurers from 31 groups to assess differences in risk capture and capital allocation under Solvency II. Key findings include variations in capital intensities, differences in risk measurement methods, and variations in capital requirements between internal models and standard formula calculations. Most undertakings were prepared for new reporting templates, but there were exceptions. The study also highlighted the impact of inflation on Solvency Capital Requirement and identified outliers for further scrutiny.

Release date: 2024-01-04

EIOPA- BoS-23/494

Reporting & Disclosure

Solvency II
EIOPA (Technical Document)

RFR for Financial Stability Reporting

The EIOPA has published its initial shocked risk-free interest rate term structures (RFR). These structures are used for computing the "Option-adjusted" duration of technical provisions, as outlined in the reporting guidelines for financial stability purposes. Although reporting this duration is optional, insurance entities are encouraged to discuss with their national supervisory authority if there are significant optionalities in their technical provisions.

Release date: 2024-02-20
Application Date: 2024-02-20

eiopa.europa.eu

Market Environment

Market Trends
EIOPA (Report)

IORPs Green Investments

The EIOPA has released a factsheet detailing the investments of IORPs in the EEA. This factsheet examines the alignment of EEA-based occupational pension funds' investments in direct equity and corporate bonds with the EU Taxonomy for environmentally sustainable activities. The analysis indicates that currently, 4.5% of these investments are aligned with the EU Taxonomy, while an additional 26.1% are eligible for alignment. Specifically, 9% of corporate bonds meet the alignment criteria, with 42% being eligible, whereas only 1% of equity investments are aligned, with 15% being eligible.

Release date: 2024-03-14

eiopa.europa.eu

Market Trends
EIOPA (Report)

Demand-side aspects of the NatCat protection gap

The EIOPA has published a revised Staff Paper addressing the low adoption of natural catastrophe insurance in Europe. With only a quarter of losses insured, the region faces a substantial protection gap. The paper identifies barriers such as consumer focus on premiums, lack of clarity, negative past experiences, misperceptions, high expectations of state intervention, and perceived complexity in the insurance process. Solutions proposed include raising awareness of risks, promoting standardized products, streamlining the purchasing process, and offering incentives for risk mitigation.

Release date: 2024-02-29

eiopa.europa.eu

Supervision
EIOPA (Report)

Insurance Risk Dashboard

The EIOPA has published its February 2024 Insurance Risk Dashboard, revealing that market risk is currently a major concern for insurers, given high exposure levels. While macro and digitalization risks have decreased to medium levels, market risks remain significant due to bond market volatility and declining commercial real estate prices. Credit risks show no significant changes, liquidity and funding risks are increasing, and profitability and solvency risks are at medium levels. Environmental, social, and governance (ESG) risks are stable at a medium level.

Release date: 2024-02-05

eiopa.europa.eu

IORPII
EIOPA (Report)

IORP Risk Dashboard

The EIOPA has published its inaugural Risk Dashboard on IORPs which assesses and monitors risks and vulnerabilities in the IORP sector. It covers various risk categories such as market, credit, liquidity, reserve & funding, and includes emerging threats like ESG and cyber risks. The first edition highlights a high exposure to market and asset return risks, with medium-level macro risks and liquidity risks showing an increasing trend. All other risk categories are currently assessed at a medium level, with expected increases in credit risks, digitalization, and cyber risks in the next 12 months

Release date: 2024-02-01

eiopa.europa.eu

Market Environment

Market Trends

EIOPA (Report)

Comparative Study on diversification in internal models

The EIOPA has published a study on diversification modelling in insurers' internal models. This study, part of EIOPA's efforts to compare internal model outputs, provides insights into modelling approaches and offers indicators for NCAs to assess compliance. The analysis reveals diverse approaches to diversification in internal models, affecting capital requirements. The findings stress the need for ongoing supervisory scrutiny at both local and European levels.

Release date: 2024-01-24

eiopa.europa.eu

Supervision

Supervision

EIOPA (Press Release)

Ultimate Forward Rate for 2025

The EIOPA has published the calculation of the Ultimate Forward Rate applicable as of 1 January 2025. This parameter of the methodology to derive EIOPA's risk-free interest rate term structures will remain unchanged at 3.30% for the euro. For currencies other than the euro, the UFR does not change for nineteen currencies, for nine currencies the UFR decreases with 15bp and for one currency the UFR increases with 15bp.

Release date: 2024-03-27

eiopa.europa.eu

PRIIPs KID

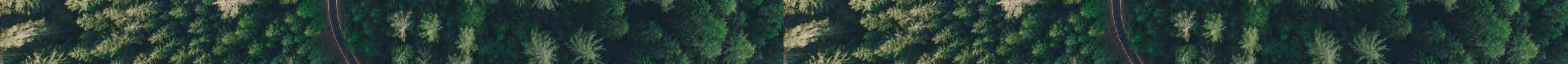
Parliament (Report)

Modernisation of PRIIPs KID

The European Parliament's ECON committee has published a report on the proposed Regulation amending PRIIPS KID Regulation as regards the modernisation of the key information document. The report sets out a draft European Parliament legislative resolution which makes amendments to the proposed Regulation.

Release date: 2024-03-26

A9-0160/2024



ARTICLE

Navigating the Corporate Sustainability Reporting Directive (CSRD) Landscape

Written by Meghna Jain, Consultant

Introduction

The Corporate Sustainability Reporting Directive (CSRD) entered into force in the European Union (EU) on 5th January 2023, signalling a pivotal moment in the realm of corporate sustainability reporting. Replacing its predecessor, the Non-Financial Reporting Directive (NFRD), the CSRD marks a significant shift towards heightened reporting requirements on the companies falling within its scope.

This directive not only broadens the spectrum of sustainability reporting but also elevates its depth and rigor, covering categories ranging from carbon emissions to pollution, water management, waste disposal, and biodiversity. The CSRD's technical standards known as the European Sustainability Reporting Standards (ESRS) lay out what and how the companies need to disclose. Importantly, disclosures pertaining to these standards are mandated to feature prominently in annual reports alongside financial statements, subject to stringent audit scrutiny to ensure credibility and transparency.

The CSRD presents a unique opportunity for companies to integrate Environmental, Social, and Governance (ESG) considerations into their fundamental business strategies. By fostering greater transparency, the aim of CSRD is to empower stakeholders including investors, analysts, consumers, and the wider public, to assess EU company's ESG performance and its consequential business impacts and risks.

The proposed directive will also entail a dramatic increase in the number of companies subject to the EU sustainability reporting requirements, from the 11,000 covered by the NFRD to the nearly 50,000, that will be covered by the CSRD.

Scope of CSRD

Large Companies: All large EU-stock listed companies, governed by EU Law or established in EU member states, meeting at two of the following three conditions will have to comply with the CSRD:

- €40 million in net turnover
- €20 million in assets
- 250 or more employees

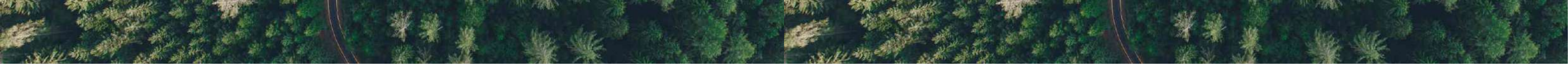
In addition, non-EU companies that have a turnover of above €150 million in the EU will also have to comply.

Small and Medium Enterprises: From the 1st of January, 2026 SMEs (small-to-medium-sized companies) with securities listed on regulated markets- have to start reporting CSRD-compliant. However, the listed SMEs have simpler standards for reporting than large companies. Non-listed SMEs can choose if they want to use the CSRD's reporting standards voluntarily. The reporting standards for SMEs will be adopted on the 30th of June 2024.

CSRD Timeline

The European Commission adopted the CSRD in late 2022. The rules will start applying between 2024 and 2028:

May 2022	EFRAG opened the first draft ESRS standards for public comment
June 2022	Members of the European Parliament (MEPs) and EU governments confirmed a provisional agreement on CSRD terms and implementation
Sept 2022	The European Financial Reporting Advisory Group (EFRAG) sends the first complete version of the ESRS reporting standards to the EU Commission
Nov 2022	The EU Commission formally approves and adopts a first set of sustainability reporting and disclosure standards. The CSRD was approved by the EU Parliament on November 10th, and approved by the EU Council on November 28th, 2022
Dec 2022	EU Member States adopt the EU Directive into law and publication in the EU Official Journal. It will enter into force 20 days after publication and its provisions will have to integrated into member states' national laws after 18 months
2023	The Corporate Sustainability Reporting Directive (CSRD) takes effect for eligible entities in corporate fiscal year 2024
2024	From 1 January 2024 for large public-interest companies (with over 500 employees) already subject to the Non-Financial Reporting Directive (NFRD), with reports due in 2025.
2025	From 1 January 2025 for large companies that are not presently subject to the NFRD (with more than 250 employees and/or €40 million in turnover and/or €20 million in total assets), with reports due in 2026
2026	From 1 January 2026 for listed SMEs and other undertakings, with reports due in 2027. SMEs can opt-out until 2028



CSRD Requirements:

The CSRD directs the European Financial Reporting Advisory Group (EFRAG) to establish a reporting framework called the European Sustainability Reporting Standards (ESRS). ESRS were developed to align with the Task Force on Climate-related Financial Disclosures (TCFD) and Global Reporting Index (GRI).

In total, the 12 chapters of the ESRS contain over 80 disclosures, and over 1000 both quantitative and qualitative data points related to those disclosures. The framework includes Cross- Cutting standards for reporting, required of all organizations governed by the CSRD, while the Topical standards for reporting - environmental, The CSRD directs the European Financial Reporting Advisory Group (EFRAG) to establish a reporting framework called the European Sustainability Reporting Standards (ESRS). ESRS were developed to align with the

ESRS Standards			Related Requirements (not limited to)	
Cross Cutting Standards	ESRS 1: General Requirements	Governance	Double Materiality Assessment	○
			Time Horizons	
		Strategy	ESG Risks in value and supply chains	○
			Sustainability policies	
		Impact, Risks and Opportunities	Due diligence	○
	ESRS 2: General Disclosures		Target Metrics and Transition Plans	
		Metrics and Targets	Identify Sustainability Risks	○
			Third Party Auditing of report	
Topical	Environmental	ESRS E1: Climate Change	Scope 1, 2, 3 emissions	◌
			Climate related risks	
			Carbon Pricing	
			Energy mixes	
			Transition Plan	
		ESRS E2: Pollution	Pollution of air, soil and water	◌
		ESRS E3: Water and Marine Resources	Water Consumption	◌
			Water recycled	
			Impact on marine ecosystems	
		ESRS E4: Biodiversity and Ecosystems	Impact on natural environment	◌
			Transition plan to address diversity loss	
		ESRS E5: Resource Use and Circular Economy	Circular material resource flows	◌
			Types of waste generated	
	Social	ESRS S1: Own Workforce	Employee Location, gender	◌
			Child Labor policies	
			Alignment with the UN Guiding Principles on Business and Human Rights	
		ESRS S2: Value Chain	policies and processes related to upstream workers	◌
		ESRS S3: Affected Communities	Company's impact on affected communities	◌
			Policies to address concerns	
		ESRS S4: Consumers and End-Users	Company's impact on end users	◌
			Policies to address concerns	
	Governance	ESRS G1: Business Conduct	Qualitative and Quantitative disclosures	◌

○ Mandatory for All Companies
◌ Mandatory if Material

EFRAG provides a required structure for the report, which they call the "sustainability statement," to help facilitate comparability of reports. The structure is as follows:

1. General information
2. Environmental information
3. Social information
4. Governance information

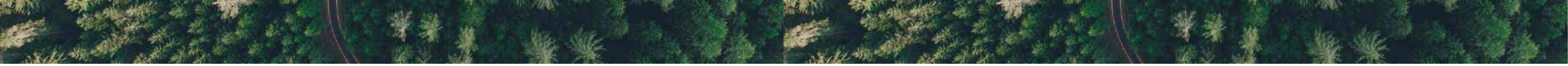
Under CSRD, companies need to include information about their sustainability efforts as a separate section in their regular management reports. This information should be submitted electronically in a specific format called XHTML, following the European Single Electronic Format (ESEF) regulation. It will then be uploaded to a new database called the European Single Access Point (ESAP), making it easily accessible to everyone.

Key challenges faced by Institutions:

Implementing robust CSRD practices presents several challenges for institutions:

- Understanding the Requirements: Compliance with the CSRD, necessitates adherence to the EU Sustainability Reporting Standards (ESRS). With over 80 disclosures available, each with its own set of guidelines, indicators, and reporting requirements, navigating through these standards can be daunting for institutions.
- Double Materiality Assessment: One of the main differences of the CSRD from current legislation is the requirement of a materiality analysis using a double materiality approach. This assessment is notably complex as it requires companies to identify both their impacts on people and the environment (impact materiality), as well as sustainability matters that financially impact the organization (financial materiality) across short, medium, and long terms and across operations.
- Data Collection and Measurement: Gathering and collating reliable sustainability data across various departments, operations, and supply chains can prove to be a multifaceted endeavour.
- Reporting Standardization: Integrating ESRS reporting requirements with the existing reporting frameworks, management systems, and processes, such as management reporting, Pillar 3 reporting, TCFD reporting, financial reporting, risk management, and strategic planning, presents a challenge for institutions. Ensuring alignment and consistency across different reporting frameworks and initiatives necessitates careful coordination and collaboration across various departments and functions.
- Resource Constraints: Allocating sufficient resources, including financial, human, and technological resources, to CSR reporting poses a challenge for organizations, particularly smaller ones.
- Complex Stakeholder Expectations: Balancing the diverse expectations of stakeholders while maintaining transparency and authenticity poses a significant challenge.
- Mandatory Assurance: Companies reporting under the CSRD will need to obtain limited assurance on their sustainability information. While not as stringent as a financial audit, this assurance requires collaboration with an independent organization or auditor experienced in sustainability reporting to review the data for accuracy and reliability.

The Corporate Sustainability Reporting Directive makes it mandatory to report on sustainability indicators as defined by the ESRS, but adjusting to the new requirements is not easy, and firms have to start preparing now.



Steps for adopting the CSRD's requirements:

Establishing Foundation of CSRD and Employee Training

Understanding the key principles, reporting obligations, and timelines within CSRD is crucial, particularly for employees involved in the identification and assessment process. This knowledge can alleviate any intimidation that may arise from these rigorous requirements. Businesses should ensure that team members are informed about the impact of CSRD on the business and clarify their responsibilities regarding CSRD compliance.

Scoping Requirements

Conduct a legal entity analysis to ascertain which entities within the organization fall under the purview of the CSRD. Determine the most suitable reporting strategy based on business needs, such as reporting at the group level or individual in-scope legal entity level. This decision should be tailored to the specific circumstances of the business.

Governance Structure Establishment

Establishing a clear governance structure with defined roles and responsibilities for the management body is paramount at every stage. The board and senior management should bear the responsibility of overseeing sustainability issues and evaluating potential sustainability and climate risks in alignment with the company's overall strategy. Defining the management's roles, structure, and processes related to sustainability, including committees dedicated to sustainability matters, resource allocation, and disclosure, is essential for implementing action plans, data collection, tracking sustainability Key Performance Indicators (KPIs), and ensuring effective oversight.

Double Materiality Assessment

Before commencing data collection or preparing the initial report, it is imperative to conduct a "Materiality Assessment" to determine sustainability goals, targets, and priorities that align with CSRD requirements and compliance

Gap Analysis

Evaluate the organization's adherence to the European Sustainability Reporting Standards (ESRS) requirements based on the Double Materiality Assessment findings. Use this assessment as the foundation for an implementation plan outlining practical changes necessary to align with regulatory standards.

Data Availability and Time Horizon

Considerations such as IT systems and controls organization, the number of required reports, operational homogeneity, subsidiary targets and goals, and the relative size of in-scope versus out-of-scope entities are crucial for assessing data availability and determining the appropriate time horizon for reporting.

Limited Third Party Assurance

Organizations reporting under the CSRD will be required to seek limited assurance (third party) on their sustainability information from a neutral, trusted, and experienced third party who reviews the data

The Double Materiality Assessment in CSRD

According to the latest ESRS guidelines, all companies are required to report general disclosures. In relation to topical standards, companies are only obligated to report on those standards deemed material. However, the process by which companies determine the materiality of standards, whether they are material or immaterial, must be clearly outlined and assured in the general disclosures. The CSRD stipulates that materiality must be assessed through a "double materiality" lens, taking into account both impact and financial materiality. Consequently, the majority of organizations will undertake a double materiality assessment as an initial step towards CSRD compliance.

Double materiality assessment involves evaluating matters from two perspectives:

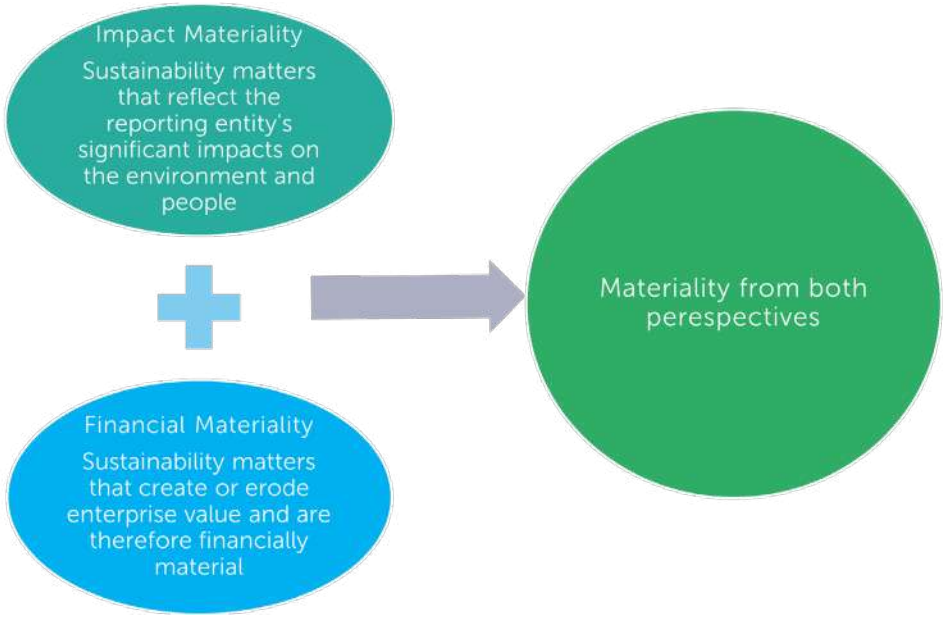
Impact Perspective

An 'inside-out' impact perspective considers the material actual or potential, positive or negative impacts of the organization on people or the environment over the short-, medium-, and long-term. These impacts encompass the organization's own operations, as well as its upstream and downstream value chain, including its products and services, and its business relationships, irrespective of their direct financial implications Environmental factors may involve assessing and disclosing climate-related risks, as the financial institution is faced with the implications of a changing climate on their portfolios. Social considerations include the treatment of policyholders, diversity and inclusion efforts, social inequality and community development. Economic dimensions

Financial Perspective

An 'outside-in' financial perspective assesses whether a sustainability matter triggers or is expected to trigger significant financial effects on the organization. This occurs when a sustainability issue generates, or may generate, risks or opportunities that materially influence the organization's development, financial position, financial performance, cash flows, access to finance, or cost of capital over the short-, medium-, or long-term. For example, regulatory changes related to carbon emissions may lead to increased compliance costs or reduced market access for certain products or services. Moreover, environmental and social risks, such as climate change risks, supply chain disruptions, reputational damage, or legal liabilities, can pose significant threats to the institution's

Large Companies: All large EU-stock listed companies, governed by EU Law or established in EU member The diagram below illustrates the circular nature of double materiality, highlighting the interconnection between financial materiality and impact materiality:



Source: EFRAG.org, Implementation guidance for the materiality assessment

A topic is deemed material if its impact is significant from either or both perspectives of Double Materiality. Conducting a double materiality assessment is pivotal for laying the groundwork for strategic ESG planning, budget allocation, risk management, and reporting. This assessment aids in identifying and prioritizing climate-related impacts that could potentially influence a company's performance, value creation, reputation, and legal standing.

Moreover, the application of double materiality can empower companies to refine their risk management strategies, bolster business resilience, and position themselves more competitively in a market increasingly emphasizing sustainable and socially responsible practices.

Matters deemed material under one or both of these standards must be disclosed. Importantly, companies do not make these determinations in isolation, as materiality assessments are subject to external, third-party assurance in accordance with the CSRD. Additionally, when certain matters are deemed immaterial, companies are required to explicitly state such determinations and provide a comprehensive analysis in their reports.

Steps to Conduct a Double Materiality Assessment:

Stage 1: Stakeholder Engagement Strategy
This step entails understanding the fundamental principles and reporting obligations inherent in the Double Materiality Assessment process, examining the interplay between a company's operations and the external environment, analysing the company's activities, business model, business relationships, and value chain (both upstream and downstream). Additionally, it necessitates establishing time horizons and identifying key stakeholders. Stakeholders serve as vital sources of insights into the material issues affecting the company and the broader community. Engage in substantive dialogue with stakeholders, encompassing investors, customers, employees, and communities, to grasp their expectations and concerns regarding the company's sustainability impacts.

Stage 2: Scoping the Assessment
Utilizing the scoping assessment conducted within the framework of the Corporate Sustainability Reporting Directive (CSRD), we pinpoint potential environmental, social, and economic impacts linked to the company's business activities, spanning both upstream and downstream segments of the value chain. This phase is pivotal for directing efforts towards areas most pertinent to the company and its stakeholders. An effective

starting point involves referencing the list of sustainability matters provided by the European Sustainability Reporting Standards (ESRS). Additionally, companies must identify any other pertinent matters relevant to their operations, irrespective of whether explicitly outlined in the ESRS, such as the company's tax policy.

Stage 3: Identification of Material Impacts, Risk and Opportunities
This stage involves meticulously identifying material sustainability matters through extensive consultations with stakeholders. It emphasizes evaluating the impact, risks, and opportunities associated with each matter. Assess sustainability risks and opportunities across short, medium, and long terms, considering factors like regulatory changes and societal expectations. ESRS mandates defining double materiality matters in terms of impacts, risks, and opportunities. While ESRS sets the level of detail, additional granular analysis may be needed. This process helps companies understand their sustainability landscape, fortify risk management, and uncover strategic value creation opportunities. This step might need involvement from a range of experts which can identify events that can either present a risk or an opportunity for the instituion, while not losing focus on the bigger picture.

Develop a materiality matrix to visually depict the aggregated identified issues. Utilize this matrix to plot the significance of each issue, considering both its impact on the company's operations and its significance to stakeholders. This prioritization tool aids in identifying the most material sustainability issues necessitating detailed disclosure in adherence to the double materiality principle. While a matrix serves as a conventional means of gauging issue significance, alternative approaches are equally valid if they effectively capture the pertinent considerations.

Stage 4: Data Collection:
Formulate a comprehensive data collection strategy tailored to the company's needs. Collect both quantitative and qualitative data pertinent to the identified material issues, facilitating a comprehensive assessment of the company's sustainability performance. This step is essential for upholding the credibility and precision of materiality assessment.

Stage 4: Assessment of the Materiality of the Impacts, Risks and Opportunities
This step represents the culmination of the aggregated materiality assessment, encompassing both Impact Materiality Assessment and Financial Materiality Assessment.

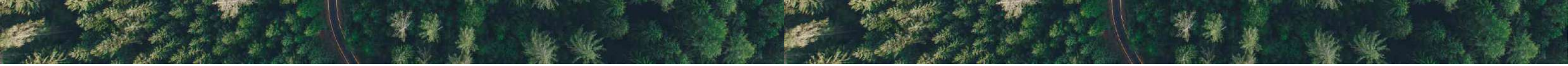
i. Impact Materiality Assessment: The company should apply objective criteria, employing appropriate quantitative and qualitative thresholds to gauge the materiality of current and potential impacts, which are evaluated based on severity and, for potential impacts, likelihood as well. For potential adverse impacts, the company estimates the likelihood of occurrence and aligns it with the relevant time horizon. Stakeholders play a pivotal role in this assessment, as they contribute to validating and ensuring the completeness of material impacts.

ii. Financial materiality assessment: Material risks and opportunities for the company typically stem from either impacts or dependencies. To assess their materiality, appropriate quantitative and qualitative thresholds based on anticipated financial effects in terms of performance, financial situation, cash flows, access to and cost of capital are utilized. Sustainability risks and opportunities are evaluated based on their likelihood of occurrence and the potential magnitude of their financial effects across the short, medium, and long-term. Engaging with the company's business unit functions, alongside investors and other financial counterparties, may be necessary to validate and ensure the comprehensiveness of the list of material risks and opportunities

Stage 5: Development of Reporting Strategy

This stage involves formally documenting key decisions and updates to policies and procedures, integrating the double materiality assessment into strategic considerations. It also encompasses setting Key Performance Indicators (KPIs), quantitative metric thresholds, and a framework for a repeatable double materiality assessment, facilitating future reviews and updates.

The ESRS represents a significant stride towards a sustainable future, compelling companies to adapt to the new standards to safeguard their long-term viability. The double materiality approach comprehensively evaluates ESG impacts, risks, and opportunities, fostering accountability for environmental and societal impact. Though the additional reporting may appear burdensome, early compliance with CSRD will provide insights into the benefits and cost-savings associated with the enhanced requirements, potentially spurring innovation. This could lead to heightened business resilience, increased access to capital and financing, enhanced reputation, reduced risks of accusations of greenwashing, among other benefits. Furthermore, given the standardized and detailed disclosure requirements of the CSRD, the level of comparability between companies will be heightened.



ARTICLE

The Insurance Recovery and Resolution Directive (IRRD)

Prepared by Eoin Stack and Seán Burke (Senior Consultants)
Reviewed by Francis Furey, Finalyse Principal Consultant

Introduction

The European Council and Parliament have agreed on a final compromise text for the Insurance Recovery and Resolution Directive (IRRD)1, released in January 2024. The provisional agreement will lead to the introduction of a new harmonised regime at European level for resolving insurers and enforcing pre-emptive recovery plans. This follows on from the original IRRD proposal2 submitted by the European Commission in September 2021, as part of the comprehensive review of the Solvency II framework.

A number of EU member states, including Ireland, France, and Germany, have already established domestic recovery and resolution planning requirements. However, many other lack such specific legislation. While these other countries are well protected by Solvency II, insurer failures still occur and pose significant risks to financial stability and to policyholders. The IRRD addresses this gap by creating a harmonised framework for the recovery and resolution of insurance and reinsurance undertakings.

Those familiar with the Solvency II Directive3 might question if the supervisory ladder of intervention4 already covers this aspect, given that (re)insurers are required to produce a recovery plan within two months of breaching their Solvency Capital Requirement (SCR). However, the recovery plans mandated by the IRRD are pre-emptive and serve to reinforce the SII Directive. This allows insurers to pinpoint viable recovery options to restore their financial positions during future potential periods of severe stress. The key distinction is that these pre-emptive recovery plans are not solely required when a (re)insurer is non-compliant with their SCR, as they will now form an integral part of the (re)insurer's regular reporting process.

In this article, we focus on the European Commission's proposals on:

1. Pre-emptive recovery plans
2. The recovery indicator framework and recovery actions
3. Group pre-emptive recovery plans
4. Simplified obligations for pre-emptive recovery plans
5. The review and assessment of recovery plans
6. Resolution plans
7. What guidance can insurers expect from EIOPA?

1. Pre-emptive recovery plans

(Re)insurance undertakings not part of a group are required to draw up a recovery plan and regularly update it. The extent of these requirements for each (re)insurer is based on the eligibility criteria, which are described in a later section. Supervisory authorities must ensure that at least 60% of the respective market is subject to such requirements, with the market coverage level for both the life and non-life markets calculated by the supervisory authority.

If an insurer is required to produce a resolution plan, they will also be subject to pre-emptive recovery planning requirements. However, those considered low risk profile (re)insurers will not be individually subject to these requirements.

(Re)insurers are obligated to update their recovery plans every two years. However, more frequent updates may be needed if there are material changes to the legal or organisational structure, the business or financial situation, or if other significant events arise that could impact the effectiveness of the recovery plan.

The recovery plan should be structured as follows:

1. A summary of the plan's key elements, including material changes to the most recently approved plan.
2. A description of the undertaking or group, including a summary of material changes since the previous plan.
3. The recovery indicator framework (see next section).
4. How the recovery plan has been drawn-up, how it will be updated and how it will be implemented.
5. A range of remedial actions.
6. A communication strategy.

2. The recovery indicator framework and recovery actions

The recovery indicator framework should include:

1. Qualitative and quantitative indicators which identify triggers for remedial actions.
2. Criteria relating to capital (at a minimum contain any breach of SCR), liquidity, asset quality, profitability, market conditions, macro-economic conditions, and operational events.

(Re)insurers will need to assess the credibility and feasibility of the indicator framework and recovery actions against a range of scenarios. These scenarios cover severe macroeconomic and financial stress events relevant to the (re)insurer, including systemic events, idiosyncratic stress events and combined scenarios.

The recovery indicator framework should be monitored regularly and integrated into the existing governance framework. If monitoring triggers a recovery action, the (re)insurer must notify the supervisory authority immediately. They must also inform the supervisory authority if a recovery action is triggered but the (re)insurer decides against taking such action.

3. Group pre-emptive recovery plans

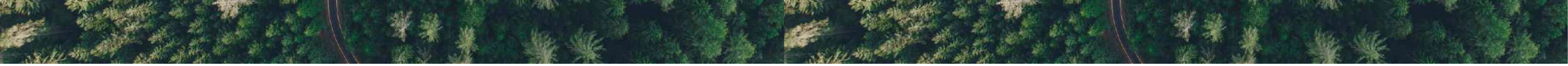
The ultimate parent undertaking of a group is required to draw up a group pre-emptive recovery plan and submit it to the group supervisor. The plan should include the recovery actions to be implemented by both the parent and subsidiaries to achieve stabilisation of the group. The structure of the group recovery plan is consistent with that for individual undertakings, as outlined earlier.

(Re)insurers that are part of a group may still be required to submit an individual recovery plan. This requirement applies if no group plan exists or if the supervisory authority determines that the subsidiary is not sufficiently accounted for in the group plan, considering their significance or in relation to similar (re)insurers.

The entity's recovery plan will undergo internal assessment and approval before being submitted to the group supervisor for review. The group supervisor's aim will be to reach a consensus within the college of supervisors regarding the review and assessment of the plan, and whether that (re) insurer needs to produce an individual plan.

4. Simplified obligations for pre-emptive recovery plans

The obligation for (re)insurers to produce a recovery plan is determined by the potential impact their failure could have on the economy. The recovery plan should be proportionate to:



- The nature of its business.
- Its shareholding structure.
- Its legal form.
- Its risk profile.
- Its size and legal status.
- Its interconnectedness to other undertakings or the financial system in general.
- The scope and complexity of its activities.

If the eligibility criteria are met, (re)insurers may qualify for simplified obligations with respect to:

- The contents and details of the plan.
- The submission date and frequency of reporting such a plan, which may be less.
- The level of information required.
- The level of detail required for the resolvability assessment.

5. Review & assessment

Once the recovery plan is submitted, the supervisory authority has nine months to review and assess it against the following criteria:

- Are the recovery options reasonably likely to maintain or restore their financial position?
- Can the recovery options be implemented quickly and effectively?

Do the recovery options avoid, to the maximum extent possible, any significant adverse impact on the financial system?

If the supervisory authorities find that there are material deficiencies in the plan after their assessment, or identify material impediments to its implementation, they will notify the (re)insurer. The (re)insurer will then be required to submit a revised plan within two months to address these deficiencies. This two-month period can be extended by one month upon request, where the supervisory authority so agrees. The (re)insurer will have the opportunity to express their opinion on the supervisor's findings before revising their plan. If the supervisory authority finds that the deficiencies and impediments have not been adequately addressed, they may instruct the (re)insurer to make specific amendments to the plan. Should the (re)insurer fail to re-submit a plan or if the identified deficiencies are not remedied, the supervisory authority will require the (re)insurer to identify, within a reasonable timeframe, the changes they can make to their business operations to address the deficiencies. If the (re)insurer is unable to identify the required business changes to rectify the situation, the supervisory authority may direct them to take any measures it considers appropriate.

6. Resolution plans

Resolution authorities must draw up resolution plans for (re)insurance undertakings based on similar eligibility criteria to those used for recovery planning. Small and non-complex undertakings will in principle not be subject to pre-emptive recovery planning requirements, except where the resolution authority considers an undertaking to represent a particular risk at national or regional level. Group resolution authorities are responsible for drawing up group resolution plans.

Resolution authorities must ensure that at least 40% of the state's (re)insurance market be subject to resolution planning. (Re)insurers are required to cooperate fully with the resolution authorities during the drafting of resolution plans, providing all the necessary information.

While producing the resolution plan, (re)insurers and groups will be subject to a resolvability assessment. (Re)insurers will be notified of any significant impediments to resolvability. Upon notification, (re)insurers will have four months to propose possible measures or remove the impediments identified by the resolution authority. The authority will then separately assess whether the proposed measures effectively address or remove the identified impediments.

If the resolution authorities find that the proposed measures are not effective, they will require the (re)insurer to take any of the following alternative measures:

a. Revise intra-group financing agreements, review the absence thereof or draw up service agreements.
b. Limit their maximum individual and aggregate exposures.
c. Impose specific or regular additional information requirements.
d. Divest specific assets or restructure liabilities.
e. Limit or cease specific or existing proposed activities.
f. Restrict or prevent development of new or existing business lines or sale of new or existing products.
g. Change reinsurance strategy.
h. Require changes to legal or operational structures.
i. Set up a parent insurance holding company.
j. Require a mixed-activity insurance holding company to set up a separate insurance holding company to control the undertaking

The notification is subject to a right of appeal.

7. What guidance can insurers expect from EIOPA?

- The eligibility criteria for simplified obligations.
- Specifying methods to determine market coverage.
- A minimum list of qualitative and quantitative recovery indicators.
- The range of scenarios for credibility and feasibility assessments.
- Technical standards for the information to be included in the recovery plan, recovery actions and their implementation.
- Technical standards for procedures and minimum set of standard templates for (re)insurers to provide resolution authorities with the information to draft resolution plans.
- Specify further details on the measures that resolution authorities can take to address impediments to resolvability and the circumstances in which they may be applied.

This will take the form of guidelines, regulatory technical standards (RTS) and implementing technical standards (ITS).

On 18 November 2022, EIOPA held a technical seminar relating to recovery and resolution planning in (re)insurance. The seminar covered a variety of topics, including the differences between the IRRD and Bank Recovery and Resolution Directive (BRRD) frameworks, a practical case study on the resolution process, and the concept of proportionality. Additionally, they discussed the establishment of resolution authorities and shared experiences from Poland, approaches to resolution planning in France, resolution funding, and issues relating to Insurance Guarantee Schemes (IGS).

EIOPA will work closely with the NCAs to develop the technical material and guidelines. In addition to this, they will establish a Committee to promote a harmonised resolution convergence, in which the heads of all of the resolution authorities will be represented.

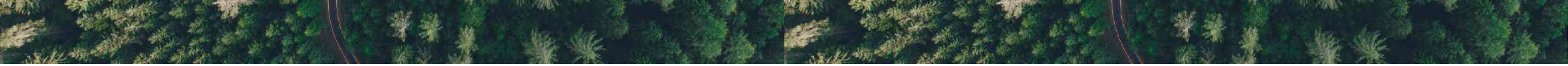
How can Finalyse help you?

Finalyse has extensive experience in risk management for insurance companies and can help you implement the Directive's proposals:

- Gap analysis: Conduct a gap analysis to contrast your current local recovery rules with the IRRD.
- Scenario analysis: Provide guidance on the suite of scenarios to be used, including their timelines and severity.
- Recovery options: Assess the impact, feasibility, and operational effects of potential recovery options, along with the projected timeline for their implementation.
- Recovery indicators: Examine the calibration of recovery indicators, align them with the risk appetite and justify any selected limits or thresholds.
- Governance: Establish procedures for monitoring and escalating triggers, updating the plan, and integrating it into the existing governance framework.
- Strategic analysis: Identify core business lines, key services, and critical functions, while also understanding potential vulnerabilities and assessing the credibility of the recovery plan.

Appendices

1. European Council & Parliament final IRRD text
2. European Commission proposed IRRD tex
3. Solvency II Directive 2009/138/EC
4. Supervisory ladder of intervention provides for intensified intervention by supervisors between the two levels of capital requirements – the SCR and MCR – to ensure corrective measures are taken sufficiently early.



An introduction to the design and functionalities of Moody's AXIS

Written by Jayadevan Vijayan, Senior Consultant in collaboration with Frans Kuys, Principal Consultant.

Introduction

Actuarial modelling plays a crucial role in supporting decision-making in insurance and reinsurance companies. These models perform key functions such as pricing, reserving, capital projections management and asset-liability modelling ("ALM").

Moody's AXIS ("AXIS") is a commonly used actuarial modelling software in the insurance industry that can be used for multiple actuarial functions such as pricing, reserving, ALM, hedging, capital calculations and financial modelling. The object-orientated approach creates an environment, not only for model development but also for model risk management. By utilising the Enterprise Link features, AXIS can provide support in implementing a company's model governance and control policies. The separation of the design, test and production environments, ability to define user roles and having effective version control are possible using Enterprise Link features.

This article provides an introduction to the design of the software and the functionalities that can be used in a valuation or reserving environment. We begin by explaining the process of establishing a reserving model in AXIS, guiding you through various steps including data handling, validation and adjustment, assumption input, and the generation of cashflow projections. We also touch briefly on the control and governance features of Enterprise Link.

The article aims to provide an overview of the software without delving deep into the technical aspects. We provide valuable tips throughout the article that can be easily implemented.

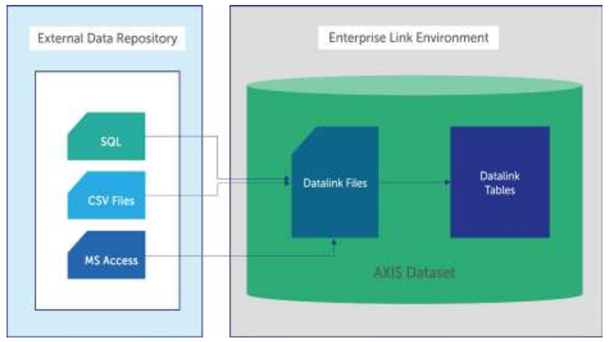
1. Setting up a Production Environment

Seriatim - Valuation Data Processing

The extraction of valuation data is the first step in the valuation process, whether it is for meeting regulatory requirements or reporting profits. The valuation data could either be stored in a data management repository such as SQL or may be available in various formats like Microsoft Access databases, CSV files or notepad files. In AXIS there are objects known as "Files" that create a link between the AXIS system and the extracted data. By using these Files users can examine and assess the source data within the system and serve as the building blocks for loading "Datalink Tables" in AXIS.

Datalink Tables are essential elements of valuation projects within the AXIS framework, as they can be used to validate the input data, add new fields, and map raw data. The following diagram provides a visual representation of this concept.

Integrating Valuation data in AXIS:



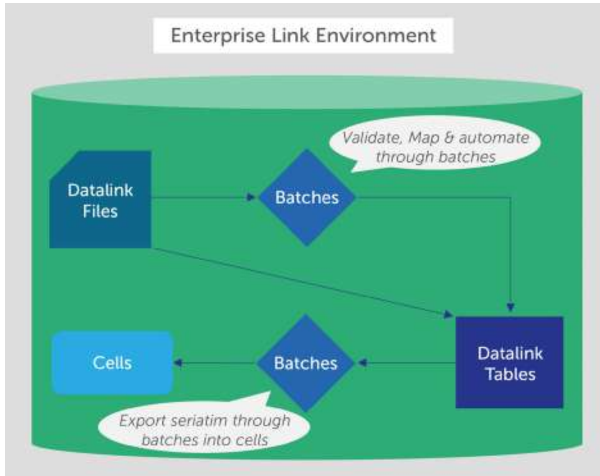
Transforming Data

AXIS provides users with tools to execute various tasks within the valuation process. "Batches" are objects which can execute several tasks, including transforming raw data.

These objects facilitate the conversion of data into Datalink Tables. The data validation and modification can be done within Datalink Tables or through Batches. These Batches, along with Datalink Tables, help users to shape the raw data into the required format for the valuation process.

The Batches can also be used to export data from the Datalink Tables into "Cells." Cells are the most detailed objects within AXIS, allowing users to specify product attributes, assumptions, and processing particulars for the policies. The following diagram provides a visual representation of the relationship between these objects.

Transforming raw data using batches



Assumptions and Product Features

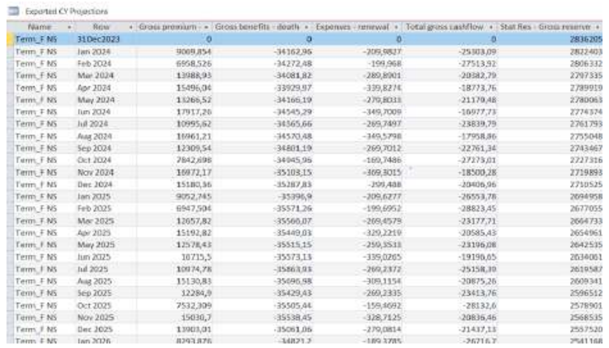
Users can populate assumptions and product features, either directly in cells or indirectly through batches. This allows for the automation of assumptions and methodology setting in a valuation project. AXIS also allows for the importing of Assumption tables directly into the cells, which reduces the coding required within the AXIS framework.

Tip 1: By making use of the base cell reference to generate new cells, you have more control over the assumptions, and it requires less coding and mapping. Protected cells with embedded assumptions and product features can be set up and used as a template to generate new cells. This reduces the need to map assumptions into cells through batches or coding.

Generating Results

After configuring the cells with assumptions, product features, and valuation data, users can initiate runs to produce results. These runs can be performed at a cell level, policy, sub fund (grouping of cells) or fund level. AXIS allows users to generate various reports, and users can export calendar year projections of cashflow elements like death benefits, premiums, expenses, and reserves to an external database for additional analysis and validation. The following image provides an example of the results exported to a Microsoft Access Database.

Calendar Year Results extract



Exported CY Projections

Name	Row	Gross premium -	Gross benefits - death	Expenses - renewal	Total gross cashflow	Stat Res - Gross reserve
Term_F NS	31Dec2023	0	0	0	0	2836205
Term_F NS	Jan 2024	9069,854	-34162,96	-209,9827	-25303,09	2822403
Term_F NS	Feb 2024	6958,526	-34272,48	-199,968	-27513,92	2806332
Term_F NS	Mar 2024	13988,93	-34081,82	-289,8901	-20382,79	2797335
Term_F NS	Apr 2024	15496,04	-33929,97	-339,8274	-18773,76	2789919
Term_F NS	May 2024	13266,52	-34166,19	-279,8033	-21179,48	2780063
Term_F NS	Jun 2024	17917,26	-34545,29	-349,7009	-16977,73	2774374
Term_F NS	Jul 2024	10995,62	-34565,66	-269,7497	-23839,79	2761793
Term_F NS	Aug 2024	16961,21	-34570,48	-349,5798	-17958,86	2755048
Term_F NS	Sep 2024	12309,54	-34801,19	-269,7012	-22761,34	2743467
Term_F NS	Oct 2024	7842,698	-34945,96	-169,7486	-27273,01	2727316
Term_F NS	Nov 2024	16972,17	-35103,15	-369,3015	-18500,28	2719893
Term_F NS	Dec 2024	15180,36	-35287,83	-299,488	-20406,96	2710525
Term_F NS	Jan 2025	9052,745	-35396,9	-209,6277	-26553,78	2694958
Term_F NS	Feb 2025	6947,504	-35571,26	-199,6952	-28823,45	2677055
Term_F NS	Mar 2025	12657,82	-35566,07	-269,4579	-23177,71	2664733
Term_F NS	Apr 2025	15192,82	-35449,03	-329,2219	-20585,43	2654961
Term_F NS	May 2025	12578,43	-35515,15	-259,3533	-23196,08	2642535
Term_F NS	Jun 2025	16715,5	-35573,13	-339,0265	-19196,65	2634061
Term_F NS	Jul 2025	10974,78	-35863,93	-269,2372	-25158,39	2619587
Term_F NS	Aug 2025	15130,83	-35696,98	-309,1154	-20875,26	2609341
Term_F NS	Sep 2025	12284,9	-35429,43	-269,2335	-23413,76	2596512
Term_F NS	Oct 2025	7532,309	-35505,44	-159,4692	-28132,6	2578901
Term_F NS	Nov 2025	15030,7	-35538,45	-328,7125	-20836,46	2568535
Term_F NS	Dec 2025	13903,01	-35061,06	-279,0814	-21437,13	2557520
Term_F NS	Jan 2026	8293,876	-34821,2	-189,3785	-26716,7	2541168

Illustration of results exported into Microsoft Access. Components of cashflows such as Premium, Death benefits and expenses along with reserves could be exported.

This section provided an introduction to a simple configuration for a reserving model. AXIS provides pre-built components and established systems that users can utilise, thus reducing the need to manually code each individual step in the process.

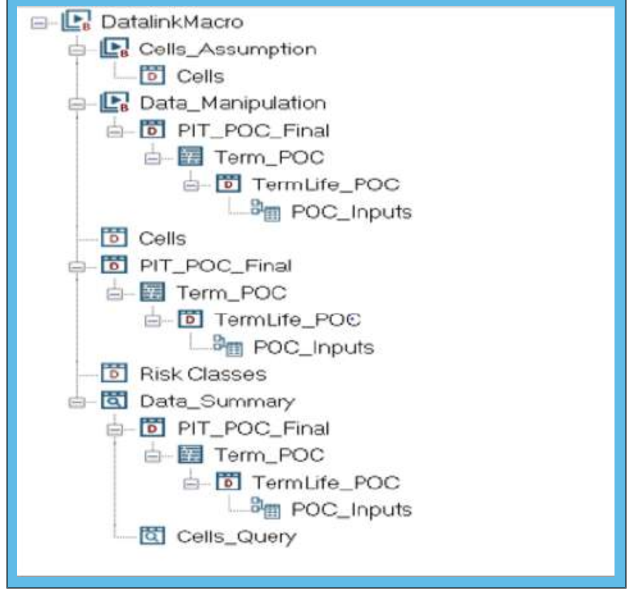
2. Controls and Governance

In this section, we give a brief overview of the model risk management features within AXIS. Defining a sound validation process and establishing strong internal controls and governance are key to ensuring comprehensive model risk management. We also introduce the features within the AXIS models and Enterprise Link framework that can be used to enhance control and governance in a production environment.

Documentation

Thorough model documentation enhances transparency and provides clarity. The AXIS notepads offer a means for users to describe the purpose of various objects. AXIS includes features that simplify the understanding of the relationships between different objects. For instance, you can utilise functions like "find text in Datalink" and "where used within AXIS" to discover the connections between objects.

Tip 2: By making use of the navigational panel, you can see the hierarchy of objects, providing a holistic picture of the model. Furthermore, external documentation can be incorporated into the AXIS model through AXIS objects such as "Document," which is compatible with Microsoft applications.



Enterprise Link features

The Enterprise Link introduces key features that can improve overall governance.

Users can establish separate environments for development, testing, and production purposes, improving governance. The version control functionality permits multiple users to make modifications to a dataset, with the system capable of recording these changes and implementing version control. "System jobs" within Enterprise Link enables the initiation and execution of jobs and helps in the automation of production runs without the user having to open datasets. In addition to the above, new features are introduced in AXIS through version updates, such as the use of super datasets, clustering and neural networks.

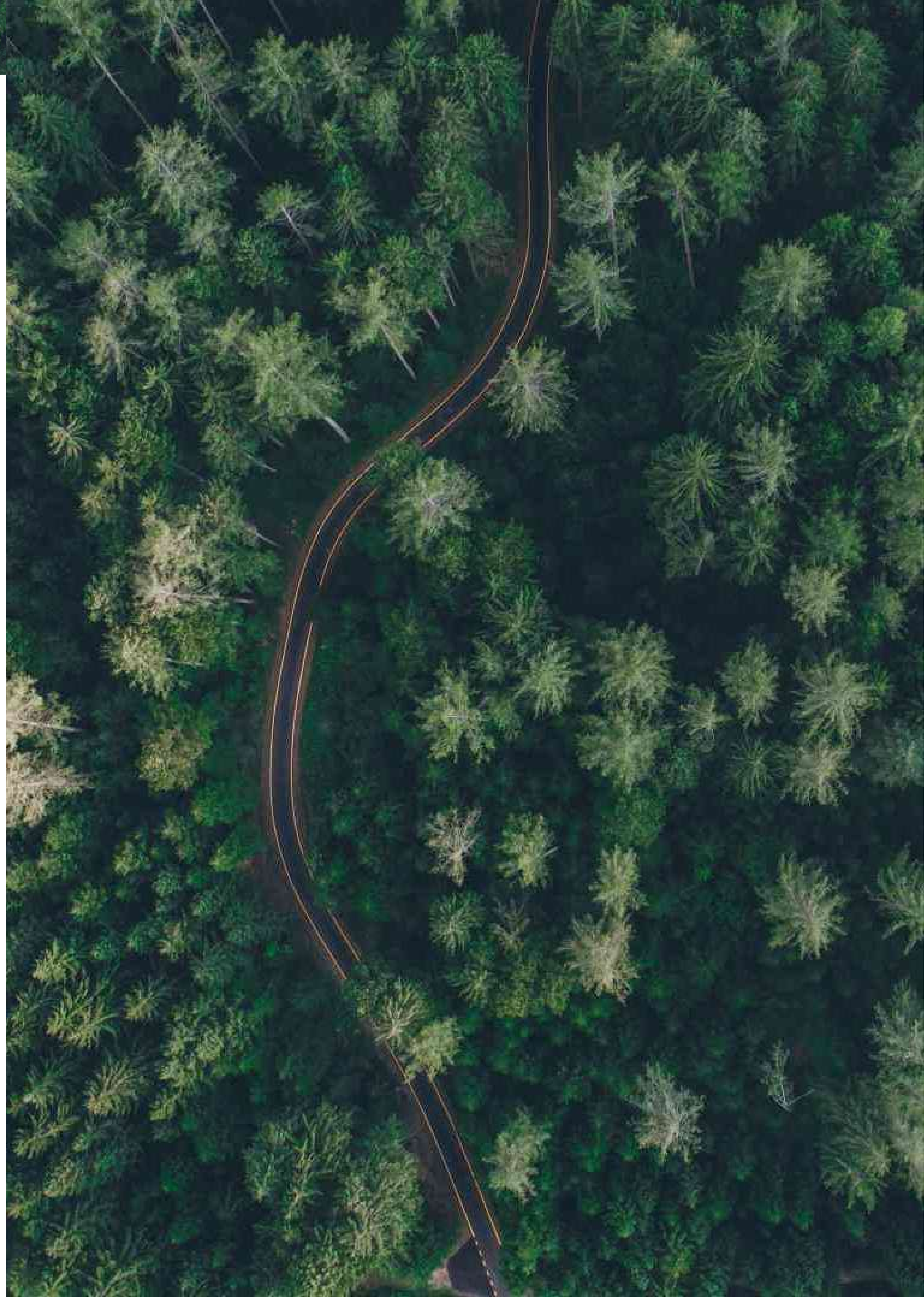
3. Conclusion

The primary goal of this article was to introduce the structure and fundamental functionalities of AXIS when used in a production setting. In addition to these functionalities, we have also introduced various governance features that give users control over their production environment. AXIS provides flexibility to its users through its object-oriented features, all while minimising the risk of model errors. These governance and control features allow users to effectively manage their models within a model risk framework.

How can Finalyse support you?

Finalyse has extensive experience and expertise in actuarial modelling for insurers and can support your AXIS needs. Our team of talented insurance professionals can support you in various areas:

- Model Development: Finalyse specialises in designing and implementing tailored actuarial models using Regular Life, Annuity, Universal Life, and Asset modules.
- Model Migration: Finalyse assists insurers in AXIS model migration, providing support in model construction, testing and development of the project roadmap.
- Process Automation: Finalyse can automate your actuarial models through batch processing and Datalink integration, optimising performance and reducing reporting timelines.
- Enhance Controls & Governance: Finalyse can support you to achieve better control over valuation models using Enterprise Link for a Production environment and developing thorough model documentation for enhanced transparency and easier audits.
- Comprehensive Model Assessment: Finalyse can evaluate model risks, controls, and governance for regulatory compliance, implementing advanced oversight systems via Enterprise Link.
- Benchmark Model: Finalyse can support clients in model validation, conducting parallel tests to detect model errors and operational risks.



Asset Management

Asset Management Regulatory Timeline

2024 Q2

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

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

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

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

MiCA
Guidelines
And technical standards
Application date: 29 Apr 2024

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

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

2024 Q3

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

Regulation
Most of the provisions of MiCA
Application date: tbd

2025 Q2

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

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

2026 Q2

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

Risk Management

Supervision
Commission (Communication)

Amending RTS Specifying Obligations

The European Commission has published a Communication on the intention to adopt, with amendments, the RTS in the proposed Commission Delegated Regulation specifies obligations of European long-term investment funds and their managers concerning the hedging of derivatives, redemption policy and liquidity management tools, trading and issue of units or shares of ELTIFs, and transparency requirements.

Release Date:2024-03-26

C(2024) 1375

IFR
Commission (RTS)

Prudential Consolidation of investment firm groups

The European Commission has published an Implementing Regulation with RTS on the prudential consolidation of investment firm groups under the Investment Firms Regulation. These standards, developed by the EBA after a consultation in 2020 and a final report in May 2023, aim to ensure consistent and harmonised practices in prudential consolidation. They cover the scope, methods, and rules for consolidation of capital requirements, including minority interests and various instruments.

Release date: 2024-03-13

C(2024)1554

Supervision

AIFMD
ESMA (Report)

Monitoring of EU Alternative Investment Funds

The ESMA has released a report on the EU AIFs market, highlighting potential risks, particularly in funds exposed to leverage and liquidity mismatches. The report notes risks in real estate funds with declining transaction volumes and falling prices. Liquidity mismatches are accentuated by open-ended real estate funds with daily liquidity, which could be systemically relevant in certain jurisdictions. The report also discusses risks associated with leveraged AIFs, including a decline in the sector size in 2022, driven by valuation losses in funds exposed to bonds and equities. Hedge funds, despite having high leverage, often hold significant cash levels to mitigate risks.

Release date: 2024-01-30

ESMA50-524821-3095

MiFID II
ESMA (Policy Agenda)

Supervisory Activities on MiFID II pre-trade controls

ESMA has released updated Q&As related to transparency aspects of MiFID II and MiFIR. Notably, Section 5, topic 12, which pertained to the minimum size of orders held in an order management facility for non-equity financial instruments, was removed from the Q&As.

Release date: 2024-01-11

esma.europa.eu

Reporting & Disclosure

MiFID/MiFIR
Commission (RTS)

Amendment to the MiFID and MiFIR

The Official Journal of the EU published a Regulation to amend MiFID II and MiFIR. The changes focus on improving access to market data and transparency. The Regulation introduces an EU-wide consolidated tape and prohibits payment for order flow (PFOF), allowing exemptions for Member States where PFOF already exists, with a phased-out deadline by June 30, 2026.

Release date: 2024-03-08
Application Date: 2024-03-28

(EU) 2024/791

Governance

AIFMD/UCITS
Parliament (Directive)

AIFMD 2

The Official Journal of the EU has published a Directive that amends the Alternative Investment Fund Managers Directive and the UCITS Directive as regards delegation arrangements, liquidity risk management, supervisory reporting, the provision of depository and custody services and loan origination by alternative investment funds.

Release date: 2024-03-26
Application Date: 2024-04-16

(EU) 2024/791

Market Environment

MMF Regulation
FSB (Report)

Thematic Peer Review on MMF Reforms

The FSB has conducted a Thematic Review on MMF Reforms, assessing the implementation of 2021 FSB policy proposals. The review identifies uneven progress among member jurisdictions in addressing vulnerabilities in MMFs, particularly the mismatch between liquidity and redemption terms. The 2021 FSB report suggested policy options, and the review finds that while some jurisdictions have introduced or recalibrated tools, others are still in the process. The FSB calls on jurisdictions to review and adopt measures, emphasising the need for further progress to enhance MMF resilience and reduce the reliance on central bank interventions during stress.

Release Date: 2024-02-27

P270224

Cross sector

Cross-sector Regulatory Timeline

2024 Q2

Sustainable Finance
Report
Call for Advice (CfA) on greenwashing - final report
Document release: tbd

Report
Joint ESAs Opinion on the review of the SFDR
Document release: tbd

Securitisation Framework
Report
Final report on greenwashing to the EC
Document release: tbd

Securitisation Framework
Report
JC Report on the implementation and the functioning of SECR under Article 44 of the SECR
Document release: tbd

EU Green Bonds Regulation
Draft technical Standards
Consultation on Draft ITS supplementing the EU Green Bond Regulation
Consultation End: : 14 June 2026

2024 Q3

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

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

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

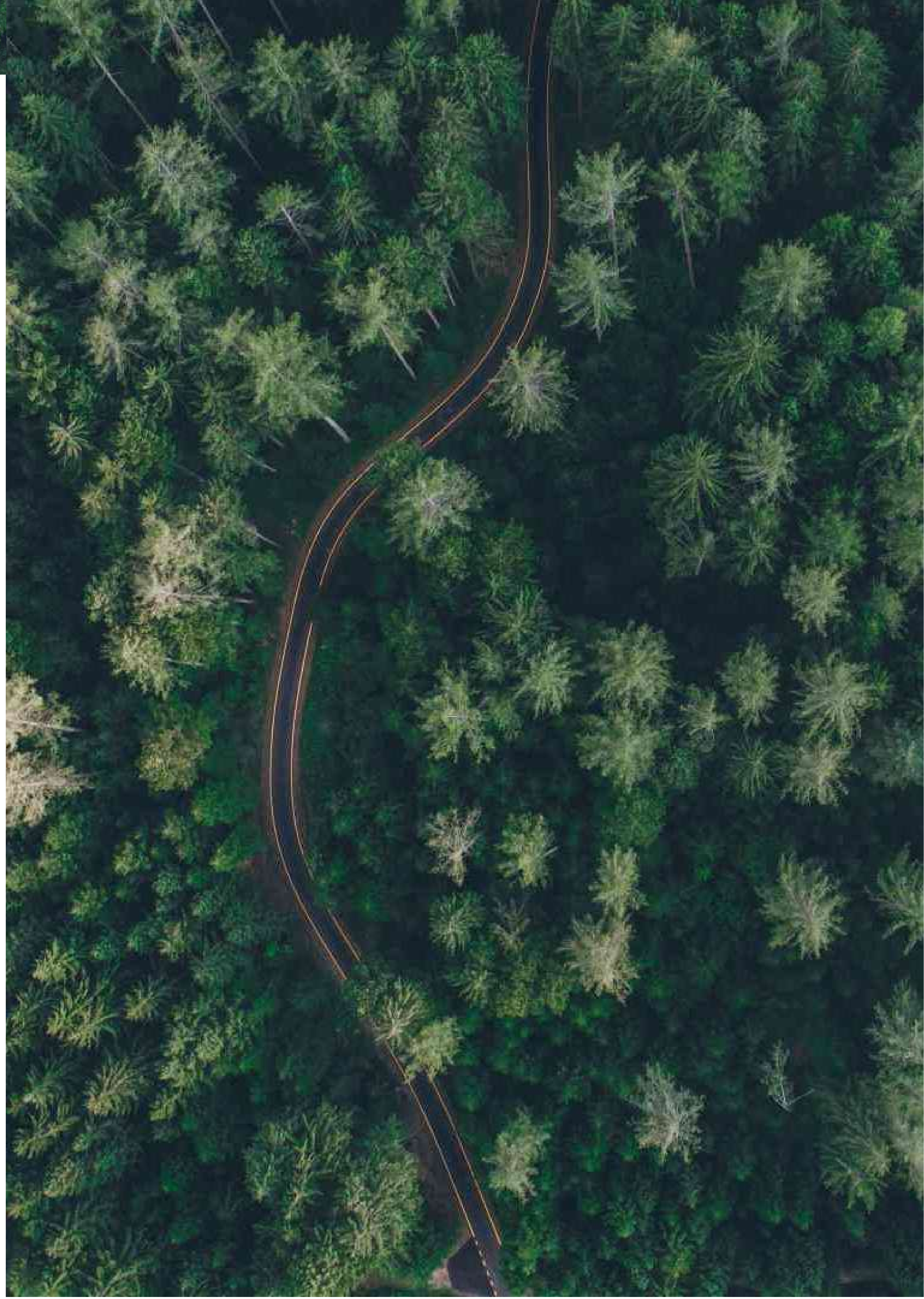
2024 Q4

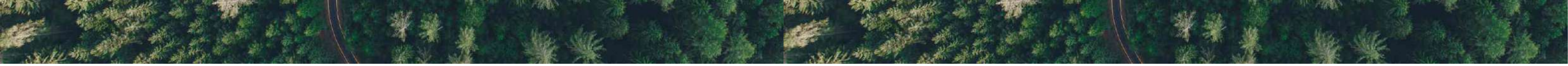
Sustainable Finance
Report
Pillar I report on sustainable Finance
Document release: tbd

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

2025 Q1

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





Supervision

Supervision

ESMA (Press Release)

Deprioritisation of Some Supervisory Actions Under the Clearing Obligation

The ESMA has published a statement on deprioritising supervisory actions linked to the clearing obligation for third-country pension scheme arrangements, pending the finalisation of the review of the EMIR. The political agreement on the EMIR 3 text provides for an exemption regime from the EMIR clearing obligation when the TC PSA is exempted from the clearing obligation under that third country's national law.

Release date: 2024-03-27

ESMA74-1049116225-623

Benchmarks Regulation

ECON (Report)

Amendments to the BMR

The European Parliament's Committee on Economic and Monetary Affairs published a report concerning proposed amendments to the Benchmarks Regulation. The report focuses on expanding the scope of rules for benchmarks, regulating the use of benchmarks from third-country administrators within the Union, and addressing specific reporting requirements.

Release date: 2024-03-19

europarl.europa.eu

CRD

Commission (RTS)

Information to be Disclosed by Competent Authorities

The Official Journal of the EU published an Implementing Regulation amending the CRD. The changes pertain to the information disclosure requirements by competent authorities in accordance with the directive. The implementing regulation specifies the format, structure, and content lists for the information to be disclosed by competent authorities. The modifications include updates to the deadlines for information updates and adjustments to the annexes. The regulation is based on draft standards from the EBA, following public consultations and analysis of related costs and benefits.

Release date: 2024-03-08
Application Date: 2024-03-28

ESMA91-1505572268-3317

MiFID II

ESMA (Statement)

Best execution reporting requirements under MiFID II

The ESMA has published a Public Statement clarifying reporting requirements under the MiFID II regulation, specifically regarding the RTS28 reporting obligation. ESMA expects NCAs not to prioritise supervisory actions related to investment firms' periodic RTS 28 reporting from February 13, 2024, until the new MiFID II rules are fully transposed into national legislation across all EU Member States. The statement is aligned with the revised MiFID II/MiFIR framework, which eliminates the annual requirement for detailed reports on trading venues and execution quality.

Release date: 2024-02-13

ESMA35-335435667-5871

Supervision

Market Trends

ESMA (Report)

Exposure of EU securities markets and asset management sector to real estate

The ESMA has published its initial analysis of the exposure of EU securities markets and asset management sector to real estate which highlights elevated debt levels in the real estate sector, posing broader risks from non-bank financial players. Interlinkages with the banking system are significant, and sector shocks may impact the EU financial system. Future risks include interest rate impact on real estate, credit risk indicators showing deterioration, and liquidity mismatches in real estate investment funds. The study reveals a decline in real estate indices, increased trading activity, and higher leverage in real estate firms over the past five years.

Release Date:2024-01-10

ESMA50-524821-3038

Market Environment

EMIR

Commission (RTS)

Emergency measures on CCP Collateral Requirements

The Official Journal of the EU published Commission Delegation Regulation 2024/818, amending RTS in another Delegated Regulation under EMIR. The amendment extends temporary emergency measures related to CCP requirements. Specifically, it prolongs the use of public guarantees and uncollateralised or partially collateralised bank guarantees, as outlined in Annex I and Article 62 of the aforementioned regulation. These adjustments are temporary and will be in effect until September 7, 2024.

Release date: 2024-03-06
Application Date: 2024-03-07

(EU) 2024/818

Market Environment

Market Trends

FCA (Report)

Wholesale Data Market Study

The FCA has published the findings of its wholesale data market study, focusing on credit ratings data, benchmarks, and market data vendor services. The regulator decided against significant intervention due to potential unintended consequences on data availability and quality, crucial for global investors. However, the FCA identified areas in all three markets where competition is not functioning optimally, leading to potentially higher prices for users. The FCA will continue to address allegations of anti-competitive conduct in wholesale data markets.

Release date: 2024-02-29

fca.org.uk

Market Trends

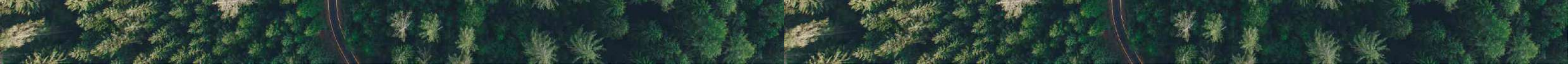
ESMA (Report)

Report on trends, risks and vulnerabilities

The ESMA has published its first risk monitoring report of 2024 highlighting the financial markets' remarkable resilience in the face of a higher-for-longer interest-rate environment. The report emphasises concerns about market sensitivity, potential corrections, and the need to maintain trust in financial markets. It also notes the impact of increased interest rates on financial stability and investors, including negative effects on credit quality and real estate valuations. The report finally provides updates on structural developments in market-based finance, sustainable finance, and financial innovation.

Release Date:2023-12-15

ESMA50-524821-3107



Climate Risk
ESMA (Consultation Paper)

Draft Technical Standards Under the EU Green Bond Regulation

The ESMA has issued a consultation paper containing draft technical standards supplementing the EU Green Bond Regulation. The consultation paper is the first of two consultations planned by ESMA with the other set for Q1 2025. In this consultation paper ESMA sets out four draft RTS and one draft ITS relating to the registration and supervision of entities interested in becoming external reviewers of EU green bonds. They also seek to clarify the criteria used for assessing an application for registration by an external reviewer.

Release date: 202403-26
Consultation End: 2026-06-14
ESMA84-2037069784-2116

Securitisation Framework
Commission (Report)

RTS for non-ABCP traditional Securitisation

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

Release date: 2024-03-26

C(2024)1344

Climate Risk
Council/Parliament (Agreement)

Provisional agreement on ESG ratings proposal

The European Parliament and Council of the EU have reached a provisional agreement on a regulation for ESG ratings. The goal is to enhance investor confidence in sustainable products by introducing a common regulatory approach. The rules mandate separate E, S, and G ratings, promoting transparency and adherence to international agreements. ESG rating providers must be authorized by ESMA and comply with transparency requirements. The agreement also supports start-up rating agencies for the first three years to boost competition.

Release date: 2024-02-06

europarl.europa.eu

Market Trends
Commission (Report)

Market Practices towards a Net Zero Economy

The European Commission's Platform on Sustainable Finance has released a report highlighting early market practices that demonstrate how the EU's sustainable finance framework supports the transition to net-zero. The report covers areas such as business strategy, finance and transactions, and reporting. The report aims to inform on the Commission's efforts in advancing the adoption of the EU sustainable finance framework, with stakeholders proposing recommendations and encouraging market actors to share their practices.

Release date: 2024-01-29

2024-01/240129

Climate Risk
NGFS (Technical Document)

Guidance on the purpose and use of the NGFS scenarios

The NGFS has published a Technical Document that outlines the objectives and practical applications of NGFS scenarios in assessing climate-related financial risks. It emphasizes that the scenarios are not forecasts but internally consistent macro-financial descriptions of potential pathways based on climate science assumptions. The document encourages users to tailor their analyses, provides areas for potential scenario adaptations, and highlights the scenarios' limitations.

Release date: 2024-01-23

ngfs.net

Climate Risk
ESAs (Report)

Tips to consumers on Sustainable Finance

The ESAs have published an interactive factsheet to address consumers' common queries about sustainable finance. The document offers tips for individuals considering financial products with sustainability features, such as loans, investments, insurances, and pensions. It includes answers to frequently asked questions and suggests steps for consumers to understand how their financial choices can contribute to a more sustainable future.

Release date: 2023-11-30

EBA, EIOPA, ESMA, 2023

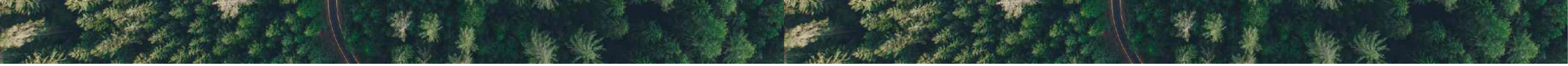
Supervision
NGFS (Technical Document)

Sustainability Training Reference Guide

The NGFS has released the "Sustainability Training Reference Guide" (STaR Guide), aimed at assisting central banks and financial supervisors in establishing in-house capacity building programs on climate-related and environmental knowledge. The guide consolidates the collective experience of NGFS members, observers, and stakeholders, offering recommendations for effective capacity building strategies on climate-related and environmental risks.

Release date: 2023-11-23

ngfs.net



SFDR
ESMA (Technical Guide)

Explanatory Notes on Key Topics of the Sustainable Finance Framework

The ESMA has published three explanatory notes focusing on essential aspects of the Sustainable Finance framework. These notes provide descriptive information on key topics such as the definition of sustainable investments in relation to the Sustainable Finance Disclosure Regulation (SFDR) and the Taxonomy Regulation, the application of the Do No Significant Harm (DNSH) requirements embedded in various Sustainable finance legislations, and the handling of estimates and equivalent information in complying with mandatory ESG metrics for regulated entities.

Release date: 2023-11-22

ESMA30-379-2281

Taxonomy Regulation
Commission (Regulation)

Economic activities Substantially contributing to Sustainability

The official Journal of the EU has published a delegated regulation that supplements the Taxonomy Regulation by establishing technical screening criteria for determining when an economic activity contributes substantially to sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, or protection and restoration of biodiversity and ecosystems. It also amends Commission Delegated Regulation (EU) 2021/2178 regarding specific public disclosures for these economic activities

Release date: 2023-11-21
Application date: 2023-12-11

(EU) 2023/2486

Taxonomy Regulation
Commission (Regulation)

Economic activities Substantially contributing to Climate change Mitigation

The Official Journal of the EU has published a Commission Delegated Regulation. It amends another Delegated Regulation pursuant to the Taxonomy Regulation as regards additional technical screening criteria for determining the conditions under which certain economic activities qualify as contributing substantially to climate change mitigation or climate change adaptation and for determining whether those activities cause no significant harm to any of the other environmental objectives.

Release date: 2023-11-21
Application date: 2024-01-01

(EU) 2023/2485

Climate Risk
ESMA (Report)

Disclosures of Climate-Related Matters in the Financial Statements

The ESMA has published a report designed to help European non-financial corporate issuers improve the disclosure of climate-related information in their financial statements prepared in line with the IFRS. The report specifically examines climate-related disclosures in the 2022 annual financial statements of European non-financial corporate issuers. It provides illustrative examples and guidance for issuers, their management, supervisory boards, and audit committees on how to assess and disclose the impact of climate-related matters on their financial statements.

Release date: 2023-10-25

ESMA32-1283113657-1041

EuGB
Council (Regulation)

Council has Adopted the EuGB

The European Council has adopted the regulation establishing a European green bond standard. This standard defines criteria for bonds labeled as 'European green bonds' (EuGB), ensuring they fund environmentally sustainable projects in line with the EU's sustainable activities guidelines. The regulation aims to enhance transparency and trust in the green bond market, reducing the risk of greenwashing and attracting investments into eco-friendly projects. It also introduces a registration system for external reviewers and voluntary disclosure requirements for other environmentally sustainable bonds issued in the EU.
Release date: 2023-10-23

consilium.europa.eu

Climate Risk
FSB (Report)

TCFD 2023 Status Report

The FSB has published the TCFD 2023 Status Report that discusses companies' progress in making climate-related financial disclosures and the challenges they face in incorporating climate-related risks into their financial statements. The report also highlights asset managers' and asset owners' TCFD-aligned reporting practices and significant actions by governments, regulators, and standard setters related to TCFD recommendations. Among others, findings include the growth in companies disclosing TCFD-aligned information, increased reporting on climate-related risks, and a majority of jurisdictions specifying climate-related disclosures in financial filings.

Release date: 2023-10-12

P121023-2

Climate
FSB (Report)

Annual Progress report on climate related disclosures

The FSB has published its annual progress report on climate-related disclosures. The report highlights significant progress in climate disclosures, including the adoption of the ISSB Standards, which provide a global framework for sustainability disclosures and mentions advancements in developing a global assurance, ethics, and independence framework for sustainability disclosures. The report highlights the importance of global comparability in climate-related disclosures and mentions efforts by international bodies to enhance assurance standards to deter "greenwashing."

Release date: 2023-10-10

P121023-1

CRD/IFRS9

Commission (ITS)

Benchmark portfolios, Reporting templates and reporting instructions

The Official Journal of the EU has published an Implementing Regulation which modifies the technical standards set out in another Implementing Regulation. The changes involve updating benchmark portfolios, introducing new validation portfolios for market risk, and expanding the IFRS 9 benchmarking exercise to high default portfolios. The regulation aims to enhance the assessment of credit institutions' internal approaches and address variability issues in the benchmarking process.

Release date: 2024-03-08
Application date: 2024-03-28

(EU) 2024/348

MiFIR

ESMA (Press Release)

Transparency calculations for equity and equity-like instruments

The ESMA has released its annual transparency calculations for equity and equity-like instruments, effective from April 1, 2024. These calculations cover various aspects including liquidity assessment, market determination, turnover, transaction values, and tick-size regime. Market participants are encouraged to monitor these calculations daily for new instruments and for the first six weeks of trading. The calculations are based on data from the Financial Instruments Transparency System for the calendar year 2023. The full list of assessed instruments is available through FITRS. The transparency requirements based on these calculations will apply until April 6, 2024.

Release date: 2024-03-01

esma.europa.eu

MiFID/MiFIR

Council (Press Release)

Council adopts new rules to strengthen market data transparency

The Council of the EU has announced the adoption of new rules to enhance market data transparency by amending the MiFID II and the MiFIR. The changes include the establishment of EU-level consolidated tapes for various asset types, providing real-time market data to investors. The rules also prohibit the practice of receiving payment for order flow (PFOF) and introduce a general ban, with member states having the option to grant exemptions until June 30, 2026.

Release date: 2024-02-20

consilium.europa.eu

MiFID/MiFIR

Council (Press Release)

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Release date: 2024-02-20

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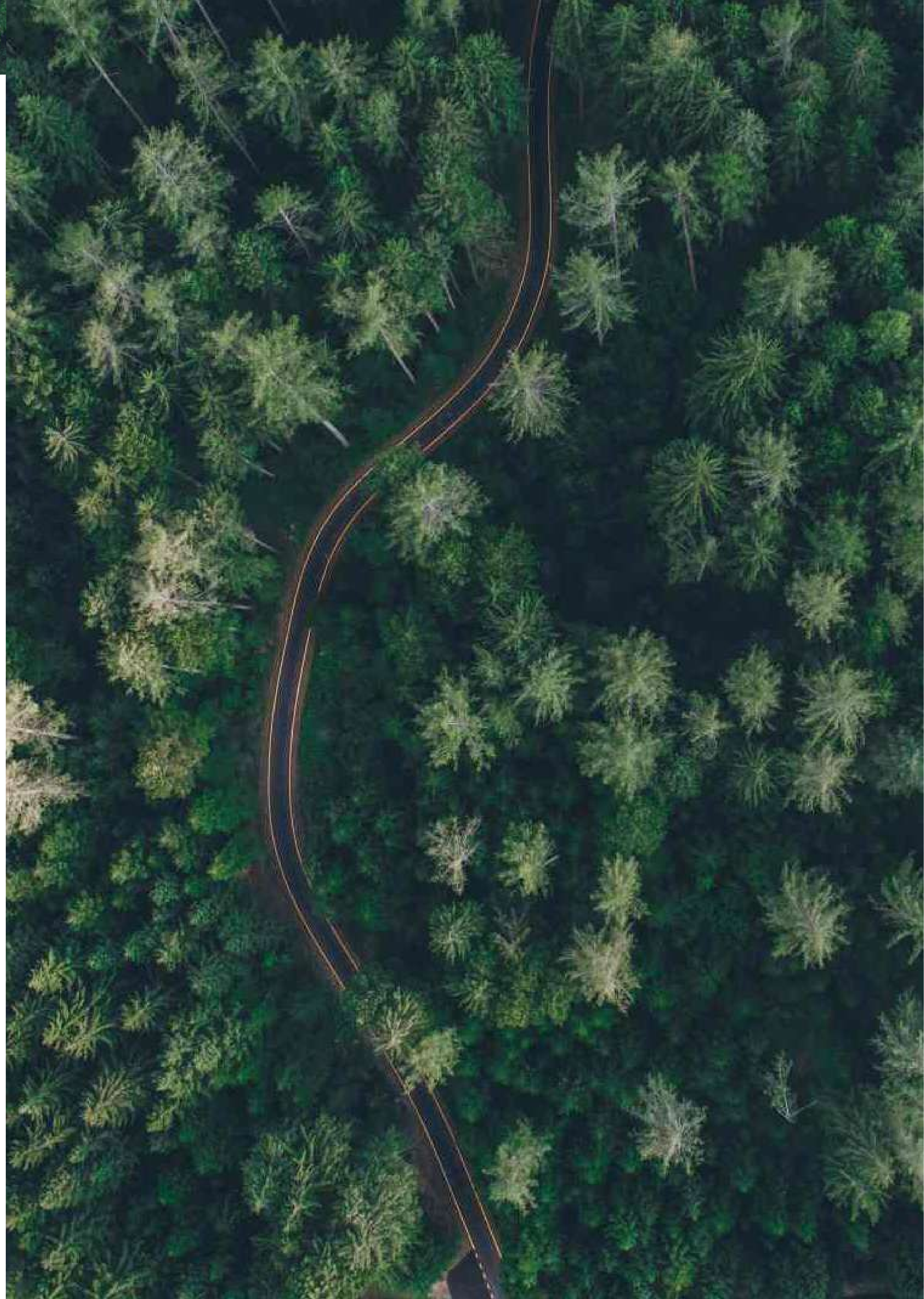

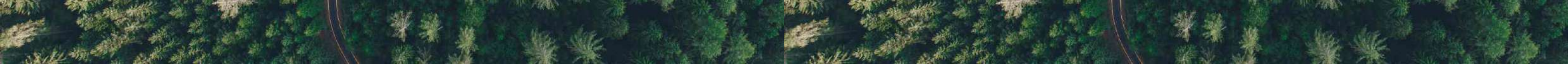

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