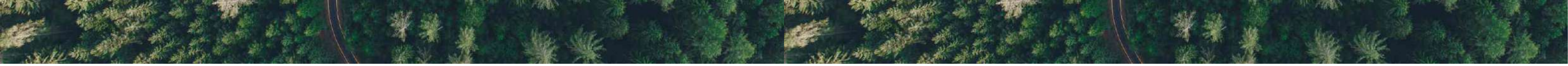
finalyse

REGULATORY BRIEF
NOVEMBER 2023



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.

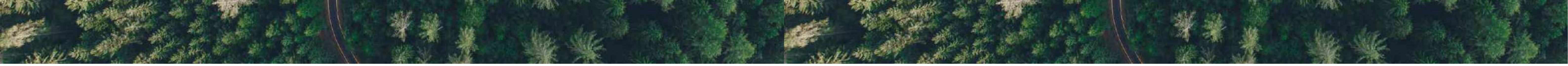
Regulatory Brief

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: from 1 July 2023 – to 30 September 2023

Contents

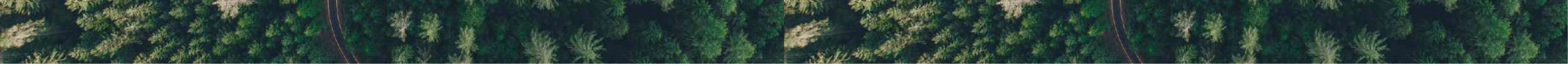


Abbreviations

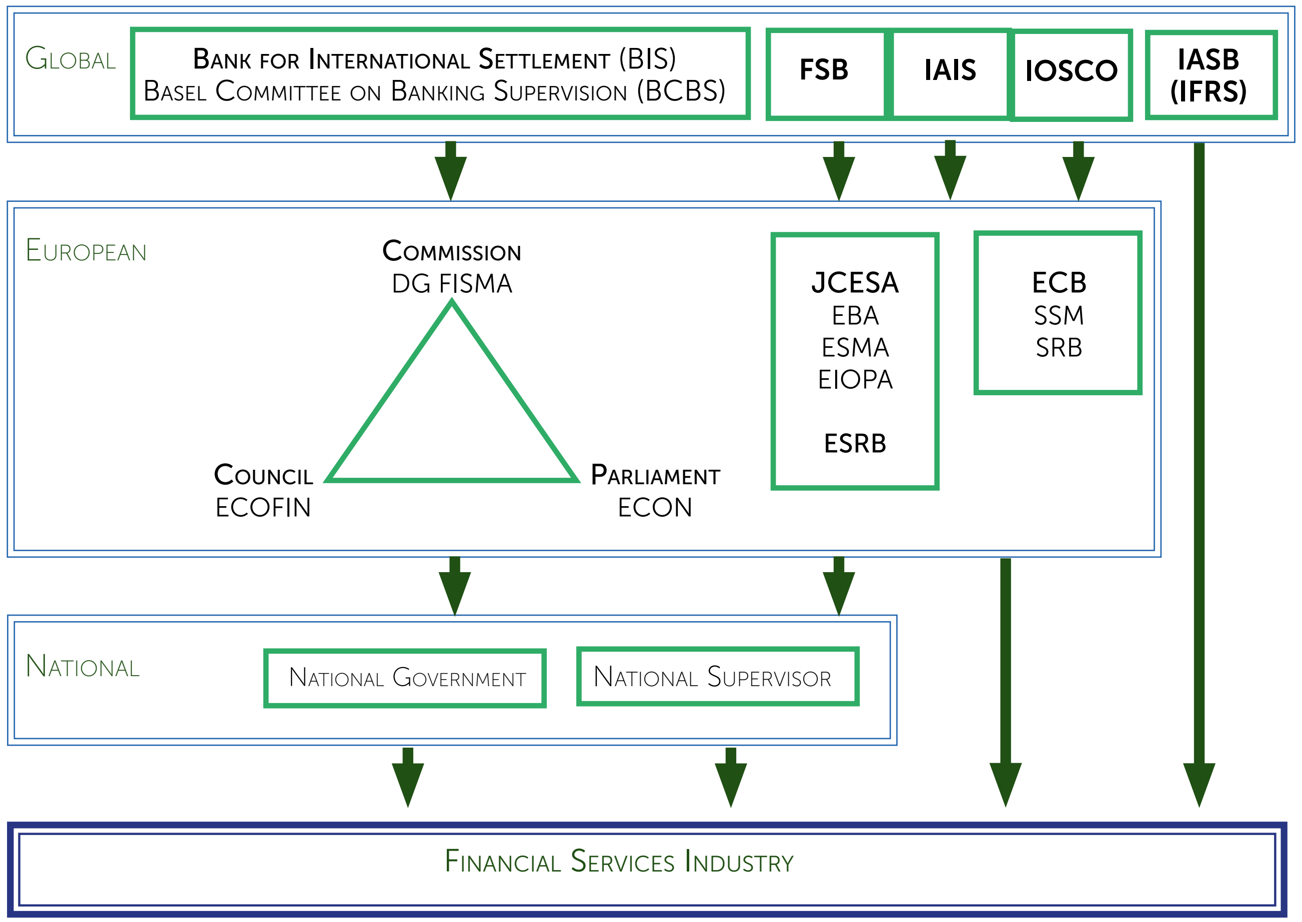
AIFMD	Alternative Investment Fund Managers Directive
AMA	Advanced Measurement Approach
AML	Anti-Money Laundering
AT1	Additional Tier 1
BCBS	Basel Committee on Banking Supervision
BIS	Bank of International Settlements
BMR	Benchmarks Regulation
BRRD	Bank Recovery and Resolution Directive
CCP	Central Counterparty
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
FICOD	Financial Conglomerates Directive
FINREP	Financial Reporting
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 Q1

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

Sustainable Finance
Delegated Regulation
The EU Taxonomy Delegated Acts are expected to apply as of
Application date: Jan 2024

2024 Q2

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

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

CRR
Peer Review
On definition of default
Document release: tbd

2024 Q3

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

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

2024 Q4

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

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

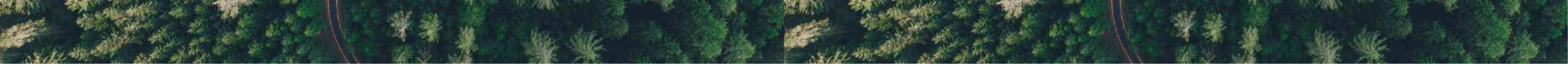
CRR
Regulation
Most of CRR 3 provisions are intended to come into force
Application date: 01 Jan 2025

Basel
Standards
Prudential treatment of banks' exposures to cryptoassets
Application date: 01 Jan 2025

2028 Q1

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

This Regulatory Calendar provides a snapshot on the most important regulatory events of this and the coming years. To see detailed calendar, please consult specific industry section of this RegBrief.



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.

Trending Topics

1. Banking Package - CRR/CRD

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

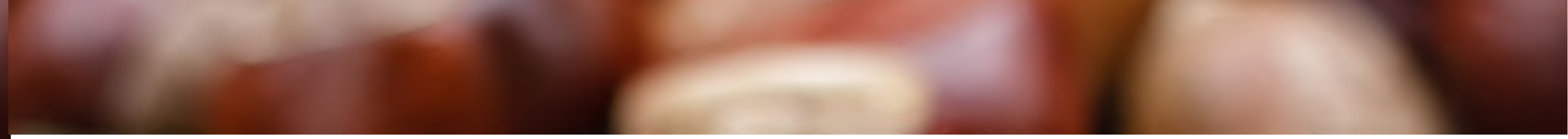
2. Insurance

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

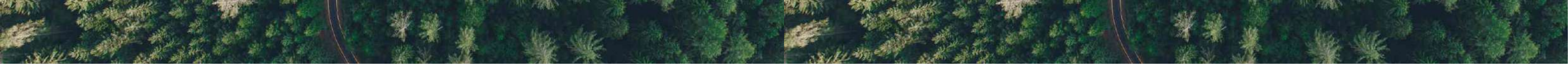
3. EMIR Refit

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

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



Banking



Banking Regulatory Timeline

2023 Q4

CRR
Regulation
Changes in LGD and conversion factors models for stand-alone rating systems for exposures to Corporates
Application date: tbd

Delegated Regulation
Methodology for the Calculation of Liabilities Arising From Derivatives
Application date: tbd

ITS
Preparation of 2023 benchmarking portfolios – update of ITS
Document release: tbd

RTS
On the assessment methodology for the IMA (CP)
Document release: tbd

RTS
On extraordinary circumstances for being permitted to continue using the IMA (CP)
Document release: tbd

RTS
On material extensions and changes under the IMA (CP)
Document release: tbd

RTS
On extraordinary circumstances for being permitted to limit the backtesting add-on (CP)
Document release: tbd

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

Report
Annual report on the impact and phase in of the LCR
Document release: tbd

Report
Annual report on the impact and phase in of the NSFR
Document release: tbd

CRD
Policy Initiative
2024 European Supervisory Examination Programme
Document release: tbd

Report
On the application of gender-neutral remuneration policies by institutions and Investment Firms
Document release: tbd

National Regulation
CRD related provisions for resolution of GSIIs with a multiple-point-of-entry resolution strategy
Document release: 15 Nov 2023

Resolution framework
Policy
The end of phase-in for SRB bank resolution policy: Expectations for Banks
Application date: tbd

Report
Monitoring the build-up of MREL resources in the EU
Document release: tbd

Report
2024 European Resolution Examination Programme
Document release: tbd

IFRS 9
Report
Potential follow up report on IFRS 9 implementation
Document release: tbd

2024 Q1

CRR
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

Report
2023 benchmarking report on IRB models
Document release: tbd

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

RTS
On criteria that institutions shall assign to off-balance sheet items – CP
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

NPL Directive
Directive
Directive on Credit Servicers and Credit Purchasers
Appilcation date: 01 Jan 2024

Resolution framework
Guidelines
For institutions and resolution authorities on improving banks' resolvability
Application date: 01 Jan 2024

Regulation
Some provisions for resolution of GSIIs with a multiple-point-of-entry resolution strategy
Application date: 01 Jan 2024

Guidelines
On Resolvability Testing
Application date: 01 Jan 2024

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

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

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
Joint ESAs Guidelines on methodologies for climate stress testing
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
Stress Test
EBA Preparation and methodological work for 2025 EU-wide stress test exercise
Document release: tbd
Stress Test
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: 01 Jan 2025

Basel
Standards
Prudential treatment of banks' exposures to cryptoassets
Application date: 01 Jan 2025

2028 Q1

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

CRR
EBA (Opinion)

Opinion to the Polish Ministry of Finance on Risk Weights for Immovable Property

The EBA has published an Opinion giving its approval to Poland's plan to extend a measure introduced in March 2022 to reduce risks related to foreign currency housing loans by encouraging banks to work out settlements with borrowers. Under this measure, banks that actively engage in settlements with borrowers will have different risk levels assigned to their foreign currency housing loans based on the progress of these settlements.

Release date: 2023-09-12
eba.europa.eu

Supervision
EBA (Press Release)

Data Used for the Identification of G-SIIs

The EBA has updated the 13 systemic importance indicators and underlying data for the 32 largest institutions in the EU whose leverage ratio exposure measure exceeds EUR 200 bn. This disclosure includes updated data items specific to the recognition of the Banking Union and of institutions that are part of the Single Resolution Mechanism. Acting as a central data hub in the disclosure process, the EBA updates this data on a yearly basis and provides user-friendly tools to aggregate it across the EU.

Release date: 2023-08-21

eba.europa.eu

Supervision
FSB (Report)

Money Market Fund Reforms

The FSB has published summary terms of reference for a thematic peer review on MMF reforms. The peer review will take stock of the measures adopted by FSB member jurisdictions to enhance MMF resilience in response to the FSB's 2021 policy proposals. The FSB has also distributed a questionnaire to member jurisdictions to collect information.

Release date: 2023-08-14
P140723.pdf

CRR
EBA (Supervisory Statement)

Implementation of the IRB Roadmap

The EBA has updated its roadmap for the IRB model requirements to limit compliance costs for institutions. The EBA extended in 2019 the deadline for the implementation of the so called 'IRB repair program' until the end of 2023 for LGD and CCF models that cover portfolios that will no longer be eligible for the AIRB approach under the Basel III framework. The EBA has now stated that the implementation of these IRB repair requirements may be postponed to the date of entry into force of the future CRR 3.

Release date: 2023-08-07

EBA/REP/2023/29

IRRBB
EBA (Decision)

Bank Data on IRRBB

The EBA has published its Decision to run an ad-hoc data collection of institutions' IRRBB data. The data collection will provide the EBA and Member State competent authorities with data to monitor risks arising from interest rate changes and the implementation of the IRRBB scrutiny plan. The submission reference date for the ad-hoc collection is set as of 31 December 2023.

Release date: 2023-08-07
Application Date: 2023-08-07
EBA BS 2023 514

CRR
EBA (Consultation Paper)

Extraordinary Circumstances for Continuing the use of an Internal Model

The EBA has published a consultation paper on draft RTS on extraordinary circumstances for continuing the use of an internal model of discarding certain back-testing overshootings under the CRR. The draft RTS specify the extraordinary circumstances under which NCAs may permit an institution to continue using their alternative internal models for the purpose of calculating the own funds requirements for the market risk of a trading desk that does not meet the back-testing requirements for the market risk.

Release date: 2023-08-03
Consultation End: 2023-11-03
EBA/CP/2023/19

Supervision
EBA (Consultation Paper)

Specification and Disclosure of Systemic Importance Indicators

The EBA has published a consultation paper on draft guidelines amending guidelines on the specification and disclosure of systemic importance indicators. The EBA methodology for identifying global systemically important institutions closely follows the approach of the BCBS for the identification of G-SIBs as they are referred to in BCBS terminology. The proposed changes aim primarily at updating the annex which replicates the data template issued by the BCBS on a yearly basis.

Release date: 2023-08-01
Consultation End: 2023-09-01
2021/0342 (COD)

CRR
EBA (Report)

Interdependent Assets and Liabilities in the NSFR

The EBA has published its report on the treatment of interdependent assets and liabilities in the NSFR. The report assesses the conditions under which assets and liabilities can be treated as interdependent in the NSFR and the description of the list of activities that are considered to meet those conditions. The EBA's report, which has been prepared in accordance with its mandate under the CRR, provides only limited recommendations for the Commission at this stage, which concern extendable maturity triggers for covered bonds and indirect derivatives client clearing activities.

Release date: 2023-07-24

EBA/REP/2023/24

Supervision
ECB (Opinion)

Amendments to the EU crisis Management and Deposit Insurance Framework

The ECB has published an Opinion on amendments to the EU crisis management and deposit insurance framework. The ECB's Opinion sets forth general observations under two headings: (i) A necessary update of the Union crisis management and deposit insurance framework; and (ii) Completing the Banking Union. It also sets out a series of specific observations including those on early intervention measures and precautionary recapitalisation and government liquidity support.

Release date: 2023-07-06

CON/2023/19

Risk Management

CRR
Commission (RTS)

Templates for the provision to buyers of information on credit exposures

The Official Journal of the EU has published a Commission Implementing Regulation that establishes technical standards for credit institutions to provide information to buyers about their credit exposures in the banking book, in accordance with Article 16(1) of the Credit Servicers Directive.

Release date: 2023-09-29
Application date: 2023-10-19

(EU) 2023/2083

CRR
Commission (RTS)

Relevant appropriately Diversified Indices in accordance with the CRR

The European Commission has published a Commission Implementing Regulation that updates the list of appropriately diversified indices in accordance with the CRR and its annex. This update is based on an assessment to ensure that the listed stock indices continue to meet specific risk conditions.

Release date: 2023-09-26

ec.europa.eu

Market Trends
EBA (Press Release)

2023 EU-wide transparency exercise

The EBA has initiated its annual EU-wide transparency exercise in 2023. This exercise is designed to monitor risks and vulnerabilities in the banking sector and promote market discipline. It relies on supervisory reporting data to minimize the burden on banks. The results, expected to be published in early December, will be accompanied by the annual Risk Assessment Report (RAR). This exercise will provide approximately 1 million data points, including information on capital positions, profitability, financial assets, risk exposure, sovereign exposures, and asset quality.

Release date: 2023-09-22

eba.europa.eu

CRR
Commission (ITS)

Closely Correlated Currencies

The Official Journal of the EU has published a Commission Implementing Regulation amending the technical standards laid in the Implementing Regulation (EU) 2015/2197 with regard to closely correlated currencies in accordance with the CRR. The amendments to Implementing Regulation (EU) 2015/2197 don't bring significant changes but instead apply the established methodology to updated data.

Release date: 2023-09-11
Application date: 2023-10-31

(EU) 2023/1718

CRR
EBA (Report)

Use of Machine Learning for IRB Models

The EBA has published a follow-up report setting out the feedback it received to its earlier discussion paper on machine learning used in the context of IRB models. The EBA also covers the interaction between prudential requirements on IRB models and two other legal frameworks that have an impact on internal credit risk models that use machine learning techniques, namely the General Data Protection Regulation and the Artificial Intelligence Act.

Release date: 2023-08-04

EBA/REP/2023/28

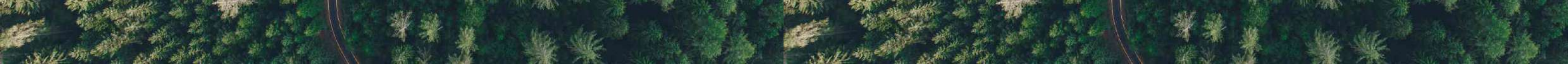
CRR
Commission (RTS)

Internal Default Risk Model for Estimating PD and LGD

The Official Journal of the EU has published a Commission Delegated Regulation supplementing the CRR with regard to RTS specifying the requirements for the internal methodology or external sources used under the internal default risk model for estimating default probabilities and losses given default.

Release date: 2023-08-01
Application date: 2023-08-21

(EU) 2023/1578



Risk Management

CRR
Commission (RTS)

Market Risk for Non-trading Book Positions

The Official Journal of the European Union has published a Commission Delegated Regulation supplementing the CRR with regard to RTS on the calculation of the own funds requirements for market risk for non-trading book positions subject to foreign exchange risk or commodity risk and the treatment of those positions for the purpose of the regulatory back-testing requirements and the profit and loss attribution requirement under the alternative internal model approach.

Release date: 2023-08-01
Application Date: 2023-08-21

(EU) 2023/1577

BRRDD
EBA (Guidelines)

Overall Recovery Capacity in Recovery Planning

The EBA has published a final report containing guidelines on overall recovery capacity in recovery planning. The guidelines specify how institutions should include in the recovery and group recovery plans a summary of their overall recovery capacity in accordance with the BRRDD and how Member State competent authorities should assess the ORC of institutions within the context of the assessment of the recovery and group recovery plans in accordance with the BRRD.

Release date: 2023-07-19

EBA/GL/2023/06

Supervision
Basel (Consultation Paper)

Core Principles for Effective Banking Supervision

The BCBS has published a consultative document on core principles for effective banking supervision. The Core Principles are the de facto minimum standards for the sound prudential regulation and supervision of banks and banking systems. They are universally applicable and accommodate a range of banking systems and a broad spectrum of banks.

Release date: 2023-07-06
Consultation End: 2023-10-06

publ/d551

CRR
Commission (Implementing Regulation)

Templates for Information to Buyers on Exposures in the Banking Book

The European Commission has published a new Implementing Regulation (EU), which sets out technical standards for credit institutions. This regulation focuses on implementing Article 16(1) of the Credit Servicers Directive, specifically addressing the templates credit institutions must use when providing information to buyers about their credit exposures in the banking book.

Release date: 2023-09-26

ec.europa.eu

Climate Risk

Climate Risk
Commission (Regulation)

Amendments to the EuGB (European Green Bonds) Regulation Proposal

The European Parliament ECON Committee has adopted amendments to the Commission's proposal for a regulation on European green bonds. The EuGB Regulation will introduce a common framework of rules regarding the use of the "European Green Bond" designation for bonds that pursue environmentally sustainable objectives as defined by the Taxonomy Regulation.

Release date: 2023-09-27

ec.europa.eu

Climate Risk
ESRB (Advice)

The Prudential Treatment of Environmental and Social Risks

The ESRB has published a recommendation to the EBA that highlights the unique risks posed by climate change and its potential to impact broader environmental and social risks. It also acknowledges the challenges of addressing these risks within the existing regulatory framework. The advice draws on the ESRB's established positions and incorporates input from the ECB/ESRB Project Team on climate risk monitoring.

Release date: 2023-09-27

esrb.europa.eu

Climate Risk
NGFS (Report)

Nature-related Financial Risks

The NGFS has published its technical framework to guide central banks and supervisors in addressing nature-related financial risks. The conceptual framework presented represents an initial step toward assessing both climate and nature-related risks together. It emphasizes that while climate change is a critical issue, it's essential to recognize that broader nature-related risks cannot be effectively analyzed or addressed in isolation.

Release date: 2023-09-06

ngfs.net

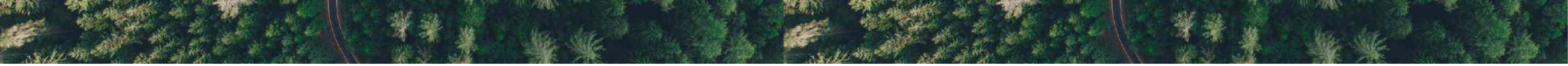
Climate Stress-Test
ECB (Report)

Economy-Wide Climate Stress Test Results

The ECB has conducted a study to see how different approaches to addressing climate change would impact businesses, households, and banks in the euro area. The results showed that speeding up the transition to green policies benefits businesses and households in the medium term, even though it initially involves higher costs. Faster green investment pays off earlier by reducing energy expenses. Banks also face lower credit risks in this scenario while delaying the transition leads to higher long-term costs and risks.

Release date: 2023-09-06

No 328



Climate Risk

Market Trends
EBA (Consultation Paper)

One-off Fit-for-55 Climate Risk Scenario Analysis

The EBA has issued a consultation on draft templates for collecting climate related data from EU banks. The consultation is part of the one-off Fit-for-55 climate risk scenario which the EBA carries out with other European Supervisory Authorities with the support of the European Central Bank and the European Systemic Risk Board. The draft templates are designed to collect climate-related and financial information on credit risk, market and real estate risks.

Release date: 2023-07-20
Consultation End: 2023-10-11

eba.europa.eu

CRR
EBA (Decision)

Data Collection of Institutions' ESG Data

The EBA has published a decision concerning ad hoc collection by Member State NCAs to the EBA of institutions' ESG data. Under this decision ESG data will be collected from large, listed institutions based on their pillar 3 quantitative disclosures on ESG risks. The collection will provide NCAs with data to monitor ESG risks and support the EBA in fulfilling its ESG mandates, including to set up a risk monitoring framework and contribute to the European Commission's Strategy for financing the transition to a sustainable economy.

Release date: 2023-07-18
Application Date: 2023-12-31

EBA/DC/498

Market Environment

Basel
EBA (Report)

Basel III Implementation Impact

The EBA has released its second mandatory Basel III Monitoring Report, which assesses the impact of implementing Basel III on EU banks by 2028. The report reveals a significant decrease since December 2021, with the estimated capital shortfall for Basel III compliance reduced to EUR 0.6 billion for the entire EU banking sector. The report also discusses the impact of proposed EU implementation adjustments under the revised CRR (CRR3). Overall, the report shows that European banks' minimum Tier 1 capital requirement would increase by 9.0% at the full implementation date in 2028, with varying impacts on different groups of banks.

Release date: 2023-09-26

EBA/Rep/2023/32

Market Environment

BRRDD
SRB (Report)

SRB publishes second resolvability heat-map

The Single Resolution Board (SRB) has published its second annual resolvability assessment for banks in the Banking Union for the year 2022. The report highlights that most banks have made significant progress in building up financial resources to withstand financial shocks and are on track to meet their targets. The SRB emphasises the need for banks to continue improving their resolvability capabilities, particularly in areas like liquidity, funding, separability, and restructuring.

Release date: 2023-09-19

srb.europa.eu

Market Trends
EBA (Report)

Ad-hoc Analysis on Banks Bonds' Holdings

The EBA has published findings of an ad-hoc analysis of unrealised losses on debt securities held at amortised cost in EU banks. The ad-hoc analysis is a targeted risk assessment conducted by the EBA in collaboration with NCAs, which aims at understanding the potential evolution of unrealised losses on EU banks' debt securities held at amortised cost. As of February 2023, the total amount of banks' debt securities held at amortised cost was 1.3 trillion EUR

Release date: 2023-07-28

eba.europa.eu

Market Trends
ECB (Report)

Unrealised Losses in Banks' Bond Portfolios

The ECB has published the results of a standalone data collection exercise it conducted in Q2 this year on unrealised losses of significant institutions under its direct supervision. The purpose of the exercise was to enhance the ECB's assessment of risk in the held-to-maturity portfolios of banks and further its monitoring of interest rate risk and liquidity risk. The exercise shows that euro area banks under ECB supervision held around 73 bn EUR of net unrealised losses in their bond portfolios in February 2023.

Release date: 2023-07-28

pr230728_1

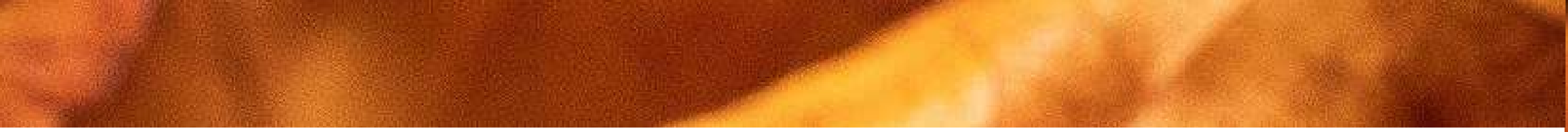
Market Trends
EBA (Report)

AT1, T2 and TLAC/MREL eligible liabilities instruments of EU institutions

The EBA has published a report which provides an update on the monitoring of AT1, T2 and TLAC/MREL instruments of EU institutions. The report merges the contents of the AT1 monitoring report published in 2021 and the EBA report on the recent monitoring of TLAC/MREL eligible liabilities instruments published in 2022. As such the report informs external stakeholders about the continuing work performed by the EBA in terms of monitoring the issuances of AT1 and T2 capital instruments as well as of TLAC/MREL eligible liabilities instruments.

Release date: 2023-07-21

EBA/Rep/2023/23



Reporting & Disclosure

Supervision

EBA (Validation Rules)

EBA Revised list of ITS validation rules

The EBA has issued a revised list of validation rules in its Implementing Technical Standards (ITS) on supervisory reporting. This revised list identifies rules that have been deactivated due to incorrectness or causing IT problems. Competent Authorities in the EU are advised not to formally validate data against these deactivated rules when submitting reports.

Release date: 2023-09-11

srb.europa.eu

IRRBB

EBA (ITS)

IRRBB Reporting

The EBA has published a Final Report proposing amendments to ITS on supervisory reporting regarding IRRBB reporting requirements. This new harmonised reporting aims to bring the data quality required for assessing IRRBB risks on an appropriate scale of institutions, including large institutions, small and non-complex institutions and other institutions, which cannot be left outside the scrutiny of IRRBB risks.

Release date: 2023-07-31

EBA/ITS/2023/03

Market Trends

ECB (Consultation Paper)

Effective Risk Data Aggregation and Risk Reporting

The ECB has launched a consultation on its draft guide on effective risk data aggregation and risk reporting. The guide outlines prerequisites for effective risk data aggregation and risk reporting to assist banks in strengthening their capabilities, building on good practices observed in the industry. The aim of the draft guide is to specify and reinforce supervisory expectations in this area, taking into account the BCBS Principles for effective RDARR. It complements and does not replace the guidance already provided since 2016 in public communications and through institution-specific supervisory activities.

Release date: 2023-07-25
Consulation End: 2023-10-08

pubcon230724

CRR

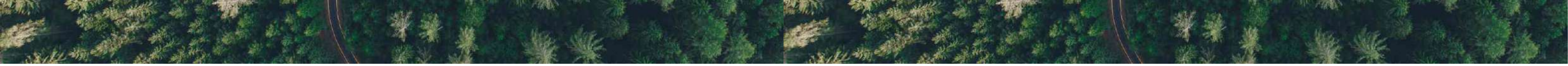
EBA (Consultation Paper)

Information on Daisy Chains and Prior Permissions

The EBA has published a consultation paper on draft ITS amending the ITS on disclosures and reporting on the MREL and total TLAC with regard to the disclosures and reporting of information on daisy chains and prior permissions. The amendments are being made in light of recent and possible amendments to the Capital Requirements Regulation and also recent experiences with reporting since the ITS came into force.

Release date: 2023-07-07
Consulation End: 2023-08-18

EBA/CP/2023/12



ARTICLE

REVISED ECB GUIDE TO INTERNAL MODELS – CONTINUOUS ALIGNMENT WITHIN A CHANGING REGULATORY ENVIRONMENT

Written by Laurens Vanweddingen, Senior Consultant

On June 22, the ECB published its revised Guide to internal models. The revision considers recent regulatory changes as well as best practices from the ECB in supervising internal models. The revision is under public consultation until September 15, inviting comments from banks and stakeholders involved in internal models.

Internal models enable banks to determine their risk-weighted assets with the permission of the ECB. These assets reflect the risks on a bank's balance sheet and serve as the basis for calculating required capital. As of the end of 2022, approximately 60% of risk-weighted exposure amounts for credit risk among ECB-supervised banks were calculated using internal models, for which credit risk corresponded to 85% of total risk-weighted assets, amounting to €8.6 trillion in total.

Initially developed as an integral part of the targeted review of internal models (TRIM), the Guide aims to address inconsistencies and reduce variability resulting from the use of complex internal models and hence focuses on streamlining banks internal models to be in line with the requirements set forth in Regulation (EU) No 575/2013, better known as the Capital Requirements Regulation (CRR).

In comparison to the previous version of the ECB Guide released in November 2019, the revised version maintains the same structure. It starts with discussing overarching topics related to internal models before moving into three chapters dedicated to credit risk, market risk and counterparty credit risk respectively.

The main changes lie in the incorporation of material climate-related and environmental risks into internal models (1), providing additional assistance for institutions willing to convert their models to simplified approaches (SA / (F) IRB) (2), a common definition of default for credit risk (3), guidance for measuring default risk in the trading book (4) and an interpretation of the rules governing banks' use of internal models for counterparty credit risk (5). These will be discussed in more detail in the following sections.

General topics

The general topics chapter newly includes the insights provided in the ECB Guide on climate-related and environmental risks, mandating financial institutions to assess materiality of such risk drivers and if deemed relevant, include them in their internal models for calculating own fund requirements for credit and market risk.

Section 1 also introduces a new subsection regarding the expectations for implementing changed or extended models, which should occur no later than 3 months after the formal notification of approval received by ECB.

Converting internal models into simplified approaches: article 149 CRR

Another section within the general topics chapter addresses the potential reversion to less sophisticated approaches, such as the standardised approach or the foundation internal ratings-based approach.

Institutions should document the rationale for reverting to a less sophisticated approach. Objective criteria should be defined for choosing the appropriate approach for calculating own funds requirements across the portfolio. The institution's internal model's strategy should consider operational capability, cost, and the strategic nature of activities. Additionally, conditions for reverting include demonstrating no adverse impact on solvency or risk management and obtaining prior permission of the competent authority.

Consistent application of criteria is necessary across exposure classes and types. Requests to revert to a different approach should provide convincing evidence that it is not intended to reduce own funds requirements.

Use of internal models in the context of consolidation

This section offers further insights into the ECB Guide on the supervisory approach to consolidation in the banking sector. A separate ECB decision for each case is necessary. Institutions should submit a "return to compliance" roadmap, outlining the strategy to restore compliance, including the internal models landscape, target post-merger internal models, actions with timelines to achieve this target model landscape, and a calculation methodology for RWEA during the transitional period.

Credit Risk

Supervisory expectations on the implementation of changed internal models in IT systems

In the application process for initial model approval, significant model changes or the implementation of IRB approach, institutions are required to provide evidence of having integrated the proposed model into a live, or, if justifiable, a non-live production environment alongside the existing system.

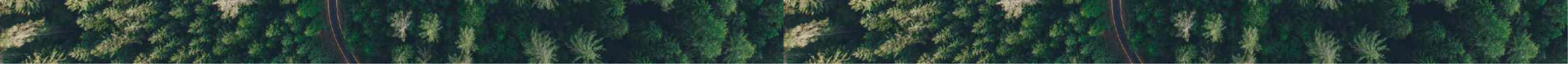
This entails demonstrating various capabilities, such as generating risk parameter estimates for relevant exposures, passing IT user acceptance tests, calculating own funds requirements based on IRB risk parameters, submitting the required COREP reports, utilizing the model for internal risk management, and preparing a reporting system that incorporates the model's risk parameters. Additionally for significant model changes, institutions ensure a successful IT implementation by the designated implementation date of the model change.

A comprehensive section on the definition of default

A new section is added on the definition of default, providing the ECB's interpretation of article 178 CRR and utilizing the EBA Guidelines on DoD. It addresses the following topics:

- Consistency in application: When applying the default definition at the obligor level, institutions must assess both the days past due and unlikeness to pay criteria for all exposures across the institution, parent company, and subsidiaries.

- Days past due criterion: All exposures exceeding the materiality threshold and remaining past due for 91 consecutive days should be classified as defaulted. A credit obligation is considered material if it exceeds €100 (retail exposures) or €500 (non-retail exposures) and represents over 1% of all on-balance sheet exposures



to that obligor. Unpaid principal, interest, or fees at the due date are considered past due obligations, except for write-offs (which are classified as UTP). Past due amounts should be calculated with a frequency that ensures timely default identification.

- Unlikeliness to pay: The unlikeness to pay criterion distinguishes between the sale of credit obligations and distressed restructuring. Institutions should analyse reasons and losses for credit obligation sales, while the guidelines provide a formula for calculating diminished financial obligations in distressed restructuring cases. Institutions should define additional indications of unlikeliness to pay, referring to the provided list in the EBA guidelines, while encouraged to incorporate external information into the default identification process.

- Return to non-defaulted status: For a return to non-defaulted status, a distinction is made between exposures subject to distressed restructuring and other exposures, both in terms of the probation period as well as the past due amounts. This depends on the definition of default set at the level of the obligor or the facility.

- Consistency of external data: Institutions using external data for risk quantification must ensure consistency with the definition of default used.

- Adjustments to risk estimates due to changes in DoD: Where changes have been made to the definition of default, institutions must ensure a proper risk differentiation based on realized default rates and compare the new definition of default with the observations used in the RDS used for risk quantification, ensuring representativeness. Furthermore, institutions should incorporate margin of conservatism (MoC) to account for uncertainties resulting from deficiencies in the reference data set (RDS) used for risk quantification.

Calibration to the LRA default rate

The subsection on calibration to the long-run average default rate in Section 5 is further amended to clarify the ECB's views on the calibration process and the additional tests required, based on paragraphs 82 to 86 of the EBA Guidelines on PD and LGD estimation. This clarification aims to ensure that probability of default estimates align with the long-run average default rate at grade or pool level.

This takes into account an assessment of the representativeness of the historical observation period of one-year default rates used as well as a justification for the choice of calibration sample and methodology. Additional tests and analyses are required to ensure the final PDs reflect the LRA default rate. Institutions should have well-defined processes for calibration, considering overrides and applying appropriate adjustments and MoCs when necessary.

Treatment of massive disposals

After the 2008 financial crisis, most European financial institutions saw an increase in their non-performing loans stock. Impeding access to capital markets, many banks disposed a large part of their portfolio of nonperforming loans. The revised guide provides the interpretation of the ECB on massive disposals following article 500 of the updated CRR ((EU) 2019/876) which provided an adjustment for LGD estimation in the case of massive disposals as the difference between the average estimated LGDs for comparable defaulted exposures that have not been fully liquidated and the average realized LGDs.

Although the time frame of June 28th 2022 set forth in article 500 has passed, additional guidance is provided to institutions regarding what is meant by the disposal date (transfer of legal ownership of assets), how the threshold of 20% of cumulative defaulted exposures is set and the usage of the incomplete workout treatment as the date prior to disposal for calculating the average estimated LGD.

Climate-related and environmental risks

The credit risk chapter includes further clarifications on the management and quantification of climate-related and environmental risks within internal ratings-based models, building upon the generic expectations outlined in the general topics chapter. This includes the following:

- Overrides: article 172 CRR
In cases where climate-related and environmental risk drivers are considered significant and not incorporated into the rating system, institutions should assess the appropriateness of applying a more cautious approach by overriding the final rating assignment output for the related facilities or obligors.

- Structure of PD models: article 179(1)(a) CRR and paragraphs 57, 121-123 EBA Guidelines on PD and LGD Estimation
Estimates must be based on drivers of the risk parameters, including climate-related and environmental risk drivers affecting the PD (paragraph 57 EBA GL) and LGD (paragraph 121 EBA GL), where deemed relevant and material.

- LGD reference dataset: paragraph 109 EBA Guidelines on PD and LGD Estimation
The RDS should contain all relevant information in relation to losses and recovery processes. This should also include climate-related and environmental information where considered relevant and material.

- ELBE and LGD-in-default: paragraph 177 EBA Guidelines on PD and LGD Estimation
For the purpose of ELBE and LGD in-default estimation, institutions should analyse the potential risk drivers, not only until the moment of default but also after the date of default and until the date of termination of the recovery process. This should include climate-related and environmental risk drivers where those risk drivers are assessed as relevant and material.

- Margin of Conservatism (MoC): paragraph 37 EBA Guidelines on PD and LGD Estimation
The MoC should consider any deficiencies stemming from missing or inaccurate information including, where relevant and material, any missing or inaccurate climate-related information considered in risk estimates.

Market Risk

The updated market risk chapter provides clarification on the following subset of topics.

Treatment of lent-out or repo'ed out instruments

Lent-out or repo'ed out instruments under the internal model approach should be included in the calculation of own funds requirements, opposed to instruments borrowed through securities lending as this transaction type does not transfer the market risk of the security.

Counterparty spread risk: article 362 CRR

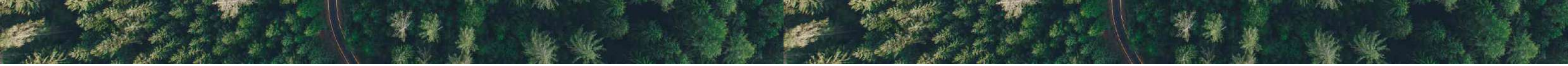
Counterparty credit spread risk, the risk of a price change due to a change in the credit spread of the counterparty to a transaction, should not be included in the internal model approach as it does not fall under general or specific risk definitions and is not part of the hypothetical or actual profit and loss for backtesting.

Funding risk

Based on paragraphs 7.1 and 7.2 of the EBA Guidelines on Incremental Default and Migration Risk Charge (IRC), this chapter specifies that funding risk embedded in own liabilities held in the trading book should be modelled under the internal model approach, as this approach aims to capture all material price risks.

Use of probabilities of default in IRC models: articles 367-376 CRR

Institutions must perform sensitivity and scenario analyses to assess the reasonableness of their internal models, particularly regarding PDs and RRs, in the incremental default and migration risk charge model for trading book positions subject to specific interest rate risk requirements. Accurate capturing of material price risks is necessary for market risk calculations. The IRC model must be conceptually sound, providing meaningful risk differentiation and accurate estimates of default and migration risks. Institutions should ensure the statistical methodology for deriving PDs is robust and consistent across rating grades.



Counterparty Credit Risk

This chapter update includes clarifications on the ECB's understanding of various aspects, including the term "most recent exchange of collateral" in the margin period of risk definition, early termination clauses, and market value corrections in relation to back-testing. It also incorporates the ECB's perspective on non-easy replacements, concentration of trades or collateral in margined netting sets, and their impact on the margin period of risk.

Upfront implementation of model extensions and changes: article 289 CRR

In line with Article 289(2) of the CRR, the ECB recommends that institutions adopt a good practice of initially applying model changes or extensions for internal risk management purposes. This approach allows institutions to gain sufficient experience with the changes or extensions before full implementation. The upfront use should commence no later than the application date in the live production environment for exposure calculations, ensuring effective risk management. Institutions should determine the most suitable method of upfront use, considering their specific circumstances and the nature of the change or extension. The ECB suggests two options: implementing the changes in the live production environment used for daily limit utilization calculations or using a non-live production environment for testing purposes.

Risks not in effective expected positive exposure

Another new subsection explains how institutions should address "risks not in effective expected positive exposure," covering immaterial risks outside the effective expected exposure framework. This aligns with the framework on "risks-not-in-the-model engines" outlined in the market risk chapter of the guide.

Conclusion

Based on recent regulatory changes and best practices in supervising internal models, the ECB has published a revised Guide on internal models. The public consultation period for the revised Guide to internal models concluded on September 15, 2023, after which the ECB will publish received comments combined with a feedback statement and the updated Guide.
The most material change is stemming from the inclusion of climate-related and environmental risks into the internal model landscape, based on the 2020 publication of the C&E Guide of the ECB which was accompanied last year with the observations from the 2022 thematic review on C&E risks.

Furthermore, additional interpretations were provided on the usage of simplified approaches to internal models, a complete section describing the common definition of default as well as minor amendments in the chapters on market and counterparty credit risk.

Future updates based on changes in supervisory criteria or regulatory obligations can occur, especially in light of the forthcoming amendment of the CRR which will emphasize credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor. The ECB will conduct a comprehensive assessment of the revised Guide on internal models once the regulation is finalized and implemented. These revisions might occur without public consultation to allow timely updates in line with evolving best practices and regulatory frameworks.

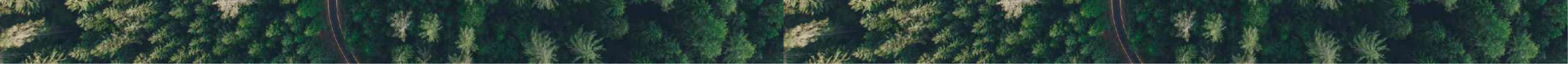
ARTICLE

THE IMPACT OF IFRS9 ON PROVISIONING BEHAVIOR IN BANKS DURING ECONOMIC SHOCKS

Written by Prashant Dimri, Consultant

This article summarizes an ECB working paper which aims to talk about how the IFRS9 framework has impacted provisioning behavior in different banks, especially in the face of macro-economic shocks such as the COVID-19 pandemic and an energy price shock.

The International Financial Reporting Standard 9 (IFRS9) brought about a significant change in how banks calculate provisions for credit losses. Prior to IFRS9, the Incurred Loss (IL) model was used, which was essentially a backward-looking approach, triggering provisions only after default events had occurred. This model raised concerns about pro-cyclicality in the banking system, where provisions surged during economic downturns, leading to capital constraints and reduced lending capacity. To address these issues, the Expected Credit Loss (ECL) model, as embodied by IFRS9, was introduced globally. In the IFRS9 model, loans are categorized into three stages: Stage 1 (Performing), Stage 2 (Under-performing), and Stage 3 (Non-performing).



Provisioning Dynamics Under IFRS9

Under IFRS9, the provisioning methodology is more forward-looking compared to the IL model. Provisions are expected to be higher before the occurrence of a default event and are designed to be more responsive to economic shocks. However, an interesting observation is that a significant portion of provisioning still occurs at the time of or after default events, similar to the traditional accounting approach, known as national General Accepted Accounting Principles (nGAAP). This suggests that despite the shift to a more ECL-based framework, provisioning dynamics around default events have not fundamentally changed.

One key challenge that banks face in implementing IFRS9 is the identification of Significant Increase in Credit Risk (SICR) at an early stage. As a result, a substantial number of loans continue to be classified as Stage 1, which is the performing stage. This inability to move loans to Stage 2 (under-performing) shortly before default highlights the difficulty banks encounter in recognizing early signs of credit risk. Consequently, IFRS9 has not radically altered provisioning patterns in this regard.

Another noteworthy aspect is the role of discretion in banks' accounting practices. IFRS9 provides banks with some flexibility in provisioning, allowing them to provision less, especially if they have limited capital headroom. In contrast, banks with more capital headroom tend to increase provisions ahead of default for loans using IFRS9. While this flexibility can help less-capitalized banks avoid a significant increase in provisions during economic downturns, it also reduces transparency and may lead to under-provisioning, particularly for banks that are already at a greater risk due to their capital constraints.

Procyclicality in IFRS9

One of the primary concerns with IFRS9 is the potential for excessive procyclicality. A sudden and significant deterioration in economic conditions can lead to a sharp increase in loss provisioning even before actual default events occur. This, in turn, can reduce banks' capital positions and limit their ability to extend credit, exacerbating economic downturns. To mitigate this risk, authorities have introduced ad-hoc support measures such as encouraging banks to incorporate flexibility within the IFRS9 framework, implementing loan moratoria, or providing state guarantees.

The introduction of flexibility in IFRS9 allows banks to manage provisions in a way that aligns with their capital availability. While this can help reduce procyclicality, it also comes with a trade-off, as it diminishes transparency and makes it harder to gauge the true extent of credit risk within a bank's loan portfolio. The paper emphasizes that finding the right balance between flexibility and transparency is crucial, as excessive flexibility can lead to under-provisioning, which may have systemic implications if significant losses materialize.

Exposure to Macro-Economic Shocks

The paper also examines the impact of macro-economic shocks on provisioning dynamics, particularly focusing on the energy price shock in 2022. The study uses loan data matched with an energy intensity measure constructed by the European Central Bank, which helps identify sectors heavily dependent on energy inputs, such as the industrial and construction sectors.

When considering the impact of the COVID-19 pandemic, the paper finds that banks with higher capital levels tend to make more provisions. Better-capitalized banks are also more likely to move loans to Stage 2 under IFRS9. In the case of the energy price shock, provisions for IFRS9 loans increased significantly for energy-intensive sectors after the shock. Banks with more capital headroom again responded by increasing provisions more than their counterparts.

Regression Strategy

To analyze the impact of accounting standards and bank characteristics on provisioning behavior, the paper employs three types of regression tests:

Determinants of Provisioning Ratio: This analysis focuses on understanding the general drivers of provisioning behavior. It assesses changes in the provisioning ratio at the bank-firm level, with variables like accounting standard (IFRS9 vs. nGAAP), bank capitalization, etc.

Provisioning Dynamics around Idiosyncratic Credit Events: Examining provisioning dynamics around individual loan-level events aims to identify potential cyclical implications of different accounting standards and bank practices. In other words, it clarifies whether provision dynamics are generally different between loans using different accounting standards or loans issued by different banks, which derive insight on cyclical implications.

Provisioning Dynamics around Macro-Economic Shocks: This analysis investigates provisioning dynamics during macro-economic shocks, such as those triggered by the COVID-19 pandemic and the outbreak of war in Ukraine. These events have broader systemic implications, and understanding their impact on provisioning is crucial.

The results of the analysis indicate that, as intended, provisions under IFRS9 are higher than those under nGAAP. During the COVID-19 pandemic, non-performing loans improved, but there was a noticeable increase in Stage 2 provisions. Banks with more capital headroom tend to make higher provisions, consistent with capital management motives. The analysis also highlights the influence of discretion on provisioning behavior.

Conclusion

In conclusion, this paper provides valuable insights into the functioning of IFRS 9 under real-life economic stress, supported by loan-level data. Future research should continue to assess the impact of IFRS 9 on financial stability and the lending behavior of banks in various economic scenarios. Certain challenges persist, such as the difficulty in identifying SICR at early stages, leading to most of the provisioning occurring at the time of default. Provisioning dynamics between IFRS 9 and nGAAP remain rather similar.

Furthermore, the paper emphasizes the importance of accounting flexibility in mitigating potential procyclical effects after an economic shock, particularly for less-capitalized banks. However, this flexibility comes at the cost of reduced transparency, potentially leading to under-provisioning and systemic risks if losses materialize. Future research should continue to assess the impact of these factors on financial stability and the lending behavior of banks in various economic scenarios. It is crucial to strike a balance between flexibility and transparency to maintain the resilience of the financial system while avoiding undue procyclicality.

Source: Working Paper Series
Same but different: Credit risk provisioning under IFRS

Insurance


Insurance Regulatory Timeline

2023 Q4

Insurance Supervision
Regulatory Review
Methodology to produce the scenarios to be used in the prudent deterministic valuation
Document release: tbd

Insurance Distribution Directive
Report
On the application of the IDD
Document release: tbd

IORP
Technical Advice
On the scheduled review of the IORP II Directive
Document release: tbd

Report
IORPs Risk Dashboard
Document release: tbd

2024 Q1

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

2024 Q2

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

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
Work on technical advice, guidelines, ITS and RTS incl. value for Money benchmarks and gathering and processing data received from NCAs
Document release: tbd

IORP
Report
Annual IORP statistics publication
Document release: tbd

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

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

2024 Q4

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

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

Guidelines
Development of a Proportionality Rulebook
Document release: tbd

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

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

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

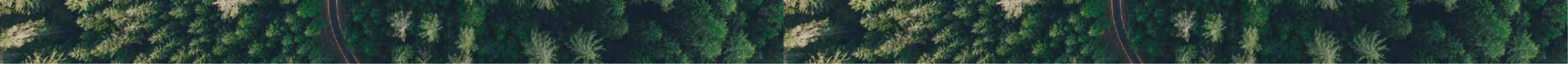
Regulatory Review
Prepare Annual Report on PEPP Market
Document release: tbd

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

Resolution Directive
IRRD implementation
Document release: tbd



Supervision

IORP II
EIOPA (Technical Advice)

Review of the IORP II Directive

The EIOPA has published its technical advice which was submitted to the European Commission regarding the review of the IORP II Directive. The advice aims to modernize the directive while safeguarding its core principles. Key recommendations include adapting regulations to the shift from defined benefit to defined contribution pensions, addressing environmental and socio-economic challenges, enhancing transparency in costs and sustainability in investments, and ensuring proper regulation and supervision for existing defined benefit IORPs.

Release date: 2023-09-28

eiopa.europa.eu

Solvency
Parliament (Directive)

Solvency Directive Supervision

The European Parliament has published a report on the proposal for a directive of the European Parliament and of the Council amending the Solvency Directive as regards the proportionality, quality of supervision, reporting, long-term guarantee measures, macro-prudential tools, sustainability risks, group and cross-border supervision.

Release date: 2023-07-28

A9-0256/2023

IDD
EIOPA (Report)

Peer Review on Product Oversight and Governance

The EIOPA has published a peer review report on product oversight and governance. This is the first peer review in the area of conduct of business supervision to assess how national supervisors in the EEA are supervising the application of POG requirements by insurance manufacturers. The peer review has found that most NCAs have adapted their supervisory approaches and processes to the supervision of POG requirements in line with the provisions introduced by the IDD and the POG Delegated Regulation.

Release date: 2023-07-20

EIOPA-23/420

Market Environment

Market Trends
EIOPA (Risk Dashboard)

Insurance Risk Dashboard

The EIOPA has published its Insurance Risk Dashboard, which shows that insurers' exposures to macro risks are currently the main concern for the sector. Risk levels remain broadly constant, with all risk categories pointing to medium risks with the exception of macro risks. Macro-related risks remain among the most relevant for the insurance sector.

Release date: 2023-07-31

EIOPA-BoS/23-286

Market Trends
EIOPA (Consultation Paper)

Demand-Side Aspects of the NatCat Protection Gap

The EIOPA has published a Staff Paper exploring the reasons for the limited uptake of natural catastrophe insurance in Europe. Building on studies carried out by EIOPA, the Paper explores so-called 'demand-side' barriers that can prevent consumers from buying NatCat insurance. It further proposes possible consumer-tested solutions to overcome these barriers.

Release date: 2023-07-05
Consultation End: 2023-10-05

EIOPA-BoS-23/217

Risk Management

Stress Testing
EIOPA (Technical Guide)

Methodological principles of insurance stress testing

The EIOPA has published its fourth paper in a series of papers on methodological principles of insurance stress testing. The paper focuses on the cyber risk component, and it is a further step in enhancing EIOPA's bottom-up insurance stress testing framework. The aim of the paper is to set the ground for an assessment of insurers' financial resilience under severe but plausible cyber incident scenarios.

Release date: 2023-07-11

EIOPA-BoS-23/258

Accounting

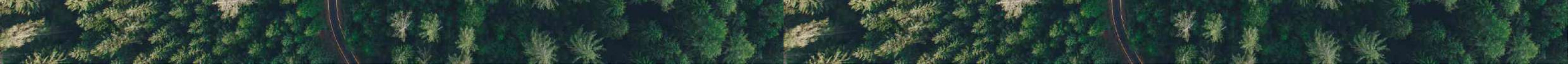
IFRS17
Commission (Regulation)

Implementation of the Holistic Framework Insurance Standards

The official Journal of the EU has published a Commission Regulation that has repealed the older consolidated version. The objective is to have a new consolidated version which will facilitate the consultation and application of the regulation given the considerable number of amendments adopted since 2008 and to correct certain linguistic errors in the translation of the IFRS Regulation.

Release date: 2023-04-04
Application Date: 2023-10-06

EU 2023/1803



ARTICLE

ECON APPROVES SOLVENCY II AMENDMENTS

Written by Seán Burke, Senior Consultant

Reviewed by Francis Furey, Principal Consultant

Introduction

In September 2021, the European Commission (EC) published a comprehensive review of the Solvency II directive, based on extensive work conducted by EIOPA. The proposed amendments were provided to the European Parliament for their consideration and approval.

The European Parliament's Committee on Economic and Monetary Affairs (Econ) has recently approved many of the amendments to the EU's Solvency II rules and the new directive on recovery and resolution of insurers. These changes are poised to reshape the regulatory landscape for insurers operating within the European Union.

After more than a year of deliberation, Econ members voted on various compromises and amendments, resulting in a majority approval of the Solvency II proposals. An implementation date for the amended directive of January 1st, 2026, has been proposed by Econ.

Key Amendments

Freeing Up Capital

Econ's proposals have the objective of liberating billions of euros in regulatory capital for investment in the EU. This is to be achieved by reforms to the risk margin and the long-term guarantee package. While some concerns have been raised about the potential misuse of freed-up capital, the committee has proposed that insurers should prioritize directing such capital towards productive investments in the real economy.

Risk Margin

The cost-of-capital method is used to calculate the risk margin under the SII directive. Previously set at 6%, the EC proposed a value of 5% for the cost-of-capital. However, Econ has reduced it further to 4.5%. The proposed "lambda" approach for the risk margin calculation has been endorsed by Econ. This accounts for the time-dependency of risks and should reduce the volatility of the risk margin.

Climate Change Scenario Analysis

The amendments emphasize the importance of addressing climate change and other environmental risks. Insurers are required to perform climate change scenario analysis at least every 3 years, with the results to be disclosed in the solvency and financial condition report (SFCR). The committee further urged the evaluation of insurers' exposure to biodiversity-related risks, underlining the growing significance of ESG (environmental, social, and governance) considerations.

Transition Plans

An important addition introduced by Econ is the requirement for insurers to develop plans for transitioning to net-zero greenhouse gas emissions by 2050. These plans must include quantifiable targets and processes to monitor and manage risks associated with the transition. The move aligns with the broader sustainability goals outlined in the Corporate Sustainability Reporting Directive and reflects the growing emphasis on sustainable practices within the financial sector.

SFCR

The amendments address governance and reporting requirements. The solvency and financial condition reports have been enhanced to include information on sustainability risks, climate scenario analysis results, and transition plans. These changes underscore the increasing importance of transparency and accountability in relation to environmental and social factors.

The SFCR should be split into two parts, one for the general public and another for the policyholders. The policyholder section should include a description of the business performance, capital management, and risk profile of the insurer.

Proportionality

Econ has largely adopted the Commission's proposals for creating "low-risk undertakings," although the criteria for identifying such firms have been adjusted slightly. These undertakings will be subject to fewer and simpler regulatory demands.

Gender Balance

Econ has passed a motion that will require insurers to set quantitative objectives to improve gender balance within their governance structures. These changes demonstrate a commitment to fairness and inclusivity within the industry.

Conclusion

While these amendments are seen as a step forward in aligning the insurance industry with broader EU sustainability goals, reactions from the various stakeholders vary. Industry lobby group Insurance Europe expressed both approval and disappointment, noting improvements in areas such as capital and volatility but also lamenting the dilution of some ambitious proposals. Environmental NGOs expressed concern that the amendments do not go far enough in incentivizing sustainable practices.

The approved amendments are now set to enter negotiations with the European Commission and Council. As these discussions resume in September after the summer break, the final shape of the regulatory framework for insurers in the EU will become clearer.

How can Finalyse help?

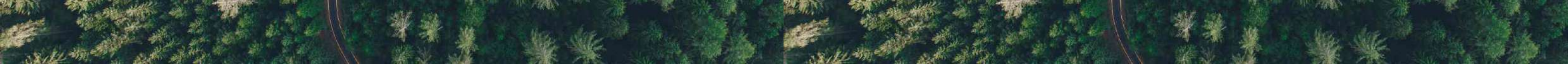
Finalyse has extensive experience in Actuarial and Risk management for insurance companies and can help you make sense of the Solvency II amendments, including:

• Gap Analysis: Perform a gap analysis detailing your situation against regulatory requirements and published proposals.

• Roadmap: Develop a roadmap for the integration of proposed changes into your business.

• Workshops: Conduct workshops with the objective of upskilling the relevant stakeholders within your business on the EC recommendations.

• Strategic Support: Understand the SII proposals for your business, including the long-term business strategy.



ARTICLE

AUTORITÉ DE CONTRÔLE PRUDENTIEL ET DE RÉSOLUTION CLIMATE STRESS TESTS: COMPREHENSIVE OVERVIEW OF THE 2023 EXERCISE FOR FRENCH INSURERS

Written by Evelyn McNulty, Managing Consultant

in conjunction with Frans Kuys, Principal Consultant

and Lamia Amouch, Principal Consultant

France's Autorité de Contrôle Prudentiel et de Résolution (ACPR) launched its second climate change stress test exercise in July 2023, which is aimed at insurers. Although the exercise is voluntary, ACPR anticipates significant participation. Insurers are asked to submit intermediate reports by 30th November and final submissions by 31st December 2023, and to have both submissions checked by their administrative, management or supervisory body (AMSB).

The timing of the exercise coincides with the requirement for insurers to include climate change risk analysis in their ORSA, for which monitoring by EIOPA commenced on 1st April 2023. The ACPR scenarios, with the focus on insurance, may therefore be a welcome point of reference for insurers who wish to enhance their ORSA scenarios for climate change risk in the months and years ahead. ACPR includes the following timeline in its paper on scenarios and main assumptions.

Source: Scenarios and main assumptions of the 2023 ACPR insurance climate exercise, July 2023

The prudential risk categories in scope of the exercise are market risk and underwriting risk for property damage, motor, health, and life insurance lines of business. The exercise includes three long-term scenarios with assumptions up to 2050 – two stress scenarios, which follow different transition pathways, and a baseline scenario. A short-term stress scenario with assumptions up to 2027 is also included, which aims to assess the vulnerabilities in insurers' current balance sheets.

The following paragraphs outline the objectives of the exercise and the scenarios based on the paper titled Scenarios and main assumptions of the 2023 ACPR insurance climate exercise. The detailed assumptions are presented in the Annex to the ACPR paper. In the accompanying Technical Guide, ACPR provides additional details on the scenarios and how to use the assumptions.

Objectives of the 2023 exercise

In the context of climate change risk, ACPR has stated a twofold mission – aiming to safeguard the stability of the financial system and to implement favourable conditions for the financing of an orderly transition. The stress testing exercises support this mission by raising awareness of climate-related financial risks, enhancing the ability of financial institutions to analyse those risks, and encouraging the use of long-term thinking in business planning and strategy. The 2023 exercise also allows ACPR to update its assessment of insurers' vulnerabilities to climate change risk and the assessment tools it uses to analyse the consequences for the financial system as a whole.

The key enhancements compared to the 2020-2021 exercise relate to the modelling of physical risk and the inclusion of the short-term scenario. The methods for incorporating chronic physical risk into the asset side assumptions have improved and the liability side physical impact assumptions have been provided at a more granular level. The short-term scenario consists of a series of acute physical impacts followed by a financial market shock, which acts as a test of insurers' solvency under extreme stress.

Long-term scenarios

The approach taken for deriving long-term stress scenarios is in line with the 2020-2021 exercise. ACPR has developed two long-term stress scenarios based on the Network for Greening the Financial System (NGFS) output. These form the basis of the projected macroeconomic and financial assumptions and are used to assess the impact of chronic physical risk and transition risk on assets. In addition, one of the Intergovernmental Panel on Climate Change (IPCC) pathways is used to derive acute physical risk impacts on liability side assumptions for property damage, motor, health, and life insurance.

In a change from the 2020-2021 exercise, the 2023 exercise asks insurers to perform projections under a third long-term scenario, which acts as a baseline scenario. This was developed by the National Institute of Economic and Social Research (NIESR) and is described by ACPR as a fictitious scenario because it has been calibrated to exclude all effects of both physical and transition climate change risks. This provides a common baseline for all insurers and the impacts of both orderly and disorderly transition scenarios will be measured in terms of their deviation from that baseline. This will give an estimate of the cost of orderly transition as well as the difference in cost between the orderly versus disorderly pathways.

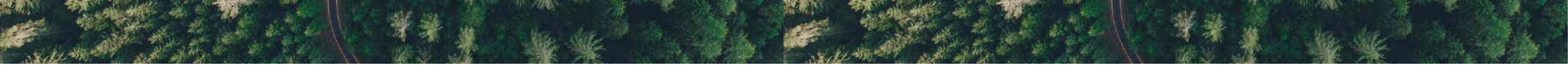
Asset side: transition and physical risks

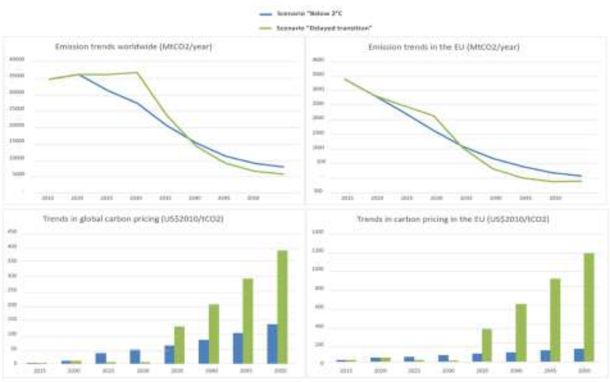
For the asset side and market risks, ACPR in conjunction with Banque de France teams derived assumptions based on the Phase III update to the NGFS scenarios, published in September 2022. Among the Phase III enhancements were improvements to the modelling of physical risk, including the incorporation of chronic physical risk impacts in the macroeconomic variable projections. This fits with ACPR's objective of taking better account of physical risk. The updated modelling approach extrapolates observed damage, using the Kalkuhl & Wenz (2020) damage function, to estimate the effects of chronic physical risks by 2100.

The NGFS scenarios selected were the Below 2^0C and the Delayed Transition scenarios. The projected temperature increase by the year 2100 is the same in these scenarios, with both calibrated so that the probability of a temperature increase of below 2^0C by 2100 is 67%. This results in physical risk impacts of the same scale.

The difference between the scenarios is the timing of the transition. The Below 2^0C scenario represents an orderly transition and assumes early adoption of environmental regulations, gradual green technological advances, and alignment between countries. The Delayed Transition scenario represents a disorderly transition and assumes a delayed response followed by harsher regulations to compensate for the inaction, but with divergence across the globe. The difference stems from the carbon price variable, which increases gradually from 2025 in the orderly scenario, but has a sharp and sudden increase in the year 2035 in the disorderly scenario.

The following illustrations from ACPR show the projected emissions pathways and carbon prices.





Source: Scenarios and main assumptions of the 2023 ACPR insurance climate exercise, July 2023

Insurers are asked to revalue their bond and equity portfolios at fair value under each scenario using a marked-to-market approach. This will involve asset pricing projections for each sector, allowing for changes in credit spread per sector, and government bond valuations. This is described in more detail in the Technical Guide. Where the best estimate liabilities depend on financial income, the liability values should be adjusted accordingly.

Macroeconomic assumptions for variables such as GDP, inflation and unemployment are provided for four geographic regions: France, Rest of Europe (including UK), USA, and Rest of the world. Other financial assumptions include projected risk-free interest rates for maturities of 1 to 20 years from EIOPA and projected stock market indices, credit risk spreads and sovereign interest rates for various geographical areas (France, Germany, Italy, Spain, UK, Euro area, US, and Japan). The equity indices are broken down by sector for 22 groups of NACE sectors and the credit risk spreads are provided for 12 grouped sectors. Sectors identified as less carbon-sensitive are grouped into aggregate categories.

National real estate price trajectories are also provided, along with regional-specific real estate price shocks for France to reflect the Climate and Resilience law that is coming into effect in the country.

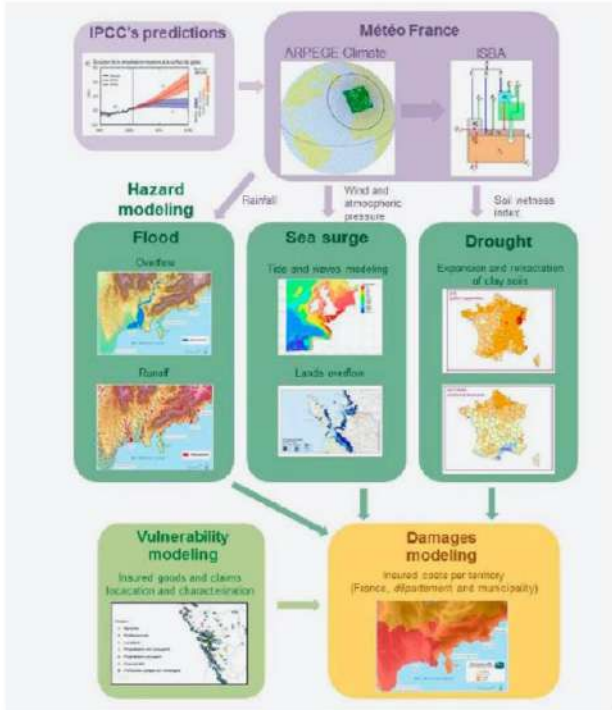
Liability side: acute physical risk

On the liabilities side, climate change effects mainly relate to the acute physical risk impacts. These may result in increased frequency and cost of extreme weather events, increased spread of tropical diseases and epidemics, and associated increases in disability and mortality rates. These increases will not only impact insurers' liabilities, but also the pricing of insurance, and could result in some risks becoming uninsurable. This would have a knock-on impact on the insurance gap and government compensation schemes.

Acute physical risk projections for non-life insurance risks are prepared in line with the RCP 4.5 pathway which has a projected temperature increase of between 0.9^{0}C and 2.0^{0}C in the year 2050. This is consistent with the NGFS scenarios used to assess the impact on the assets. For property damage and motor insurance, the Caisse Central de Réassurance (CCR) offers to provide insurers with projected loss experience for exposures in France and overseas French territories. A more granular set of damage projections is available from the CCR compared to the 2020-2021 exercise, with a distinction between changes to insured stakes and changes to hazard rates.

The analysis by the CCR is based on projections made by Météo France using its Arpège Climat model and a local hydrometeorological model for soil wetness in France and Corsica. These models provide projections up to 2050 based on the RCP 4.5 pathway for perils such as river floods, droughts, coastal floods, and cyclonic storms. In addition to the peril projections, demographic projections by INSEE (the French National Institute for Statistics and Economic Research) were used to estimate the number of risks in different regions of France up to 2050. The output is a set of projections for each French municipal region for the value of damages to be covered, the mean loss estimates, and the loss estimate for the 95th quantile of damages as estimated by the CCR.

The following illustration from the ACPR paper shows the process flow for the CCR analysis.



Source: Scenarios and main assumptions of the 2023 ACPR insurance climate exercise, July 2023

Insurers are asked to make allowance for changing policyholder demand upon premium increases for home insurance by including policy terminations in the projections when the premium exceeds a given threshold for the location. This applies to optional policies only, where the homeowner is the occupier, and assumptions for termination threshold by department within France are provided by ACPR. Insurers are also asked to project impacts on any catastrophe perils that they are exposed to but that are not covered by the CatNat natural disaster compensation scheme in France.

Insurers who do not wish to get assistance from the CCR and instead derive their own damage projections must comply with the physical risk pathways appended to the Technical Guide to allow for comparability. For exposures outside of French territories, the Technical Guide lists freely available models and data that insurers may rely on to derive damage projections.

For health insurance risks and mortality rate projections, ACPR has conducted an analysis in conjunction with the reinsurance broker AON. The analysis focuses on projected increases in the spread of vector-borne diseases and air quality in line with the IPCC's RCP 4.5 pathway. The Annex to the APCR paper provides the resulting projected impacts on mortality rates, healthcare costs, and work stoppage for the entire French territory and the largest urban areas.

Dynamic balance sheet assumption

Following the format of the 2020-2021 exercise, the projections of climate, macroeconomic and financial variables are provided in 5- or 10-year increments for years 2025 to 2050. Insurers may use a dynamic balance sheet assumption for the long-term scenarios, meaning that the projected asset and liability portfolios can be adjusted to reflect future management actions and adaptation measures that they expect to take. Insurers may assume different adaptation actions under each scenario.

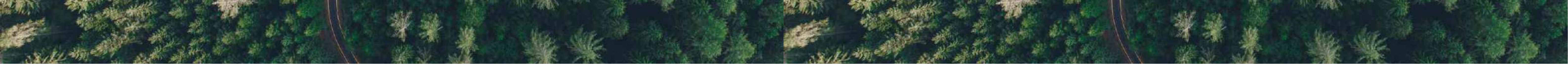
Insurers are asked to submit details of their investments broken down by asset type and sector over the projection period. This will give ACPR information on the asset reallocation decisions taken over time and allow them to check that the aggregate investment holdings are consistent with the projected financing needs of the economy over time.

Short-term scenario

The 2023 ACPR exercise includes a short-term scenario affecting mainland France, involving a sequence of acute physical risk impacts followed by a financial market shock. This scenario assesses the sensitivity of insurers' current portfolios to extreme events and allows insurers to see how events might unravel over their strategic planning and ORSA timeline. It also acts as a test of solvency under extreme conditions. The impact of the stress will be measured against the baseline scenario.

The sequence of events is described by ACPR as hypothetical and as extreme, but plausible. During 2023 and 2024, the drought and heatwave events that occurred in Europe in 2022 are assumed to repeat. The first quarter of 2025 sees heavy rainfall and elevated temperatures, accelerating snowmelt. This results in a historic flood in the Durance River, causing the Serre-Ponçon dam to burst and leading to a wave of high water flooding the downstream region in Q1 2025.

The occurrence of this sequence of events – affecting life, infrastructure, and property – is assumed to lead to heightened market awareness of climate risk and the swift announcement of strict



carbon regulations in many major economies. This creates a market shock since markets had not taken adequate account of climate risk, leading to a significant loss in the value of assets sensitive to transition risk in Q2 and Q3 of 2025. Contagion and generalised uncertainty mean that spread shocks affect all sectors and equity values plummet. Markets are assumed to stabilise by Q4 2027 but at lower levels compared to 2024, pre-shock. This is expected to have a disinflationary impact on the Euro area.

Insurers are asked to project the short-term scenario using a static balance sheet assumption, meaning that the balance sheet at year-end 2022 is projected forward without changes for management actions to adapt the insurer's liability portfolio and investments. For projection years 2023 and 2024, insurers are asked to set their liability assumptions in line with their observed loss experience from 2022 for non-life insurance and to use the AON mortality and healthcare costs data from 2022 for life and health insurance. For the impact of the dam burst in Q1 2025, AON provides mortality assumptions at a department level and the CCR provides non-life sector loss experience assumptions.

Short-term stress financial assumptions are derived by ACPR in conjunction with Banque de France teams using the same methodologies as used for the long-term assumptions. Assumptions are provided for each year, from 2023 to 2027, including projections of sector-specific stock market index performance and credit spreads, and sovereign interest rates. These are provided for France, the Euro area, USA, and Japan. The sectoral breakdown uses 12 grouped NACE sectors for both credit spreads and equities. Financial assumptions for a short-term baseline scenario are also provided. These were derived from the 5-year GDP and inflation trajectories in the long-term NIESR baseline scenario for each country or economic area.

The illustrations on page 57 show the projected short-term impacts on credit spreads and Euro area GDP and inflation from the ACPR paper.

Submission delivery formats

For the intermediate reports submission in November 2023, insurers are asked to provide projections of their asset composition for the long-term scenarios at 5- or 10-year intervals. This will allow ACPR to check that the aggregate investment holdings are consistent with the projected structure of the financing needs of the economy.

To assess the impact on premium affordability and changing policyholder demand, ACPR asks for a qualitative submission. This involves a questionnaire asking for descriptions of management actions that would be taken in response to worsening climate events such as changes to underwriting, pricing and reinsurance policies. This is supplementary to the quantitative modelling of the termination thresholds for optional property damage policies described in the liability side section above.

ACPR also asks insurers to provide a methodological note along with quantitative submissions, outlining the results, any assumptions and simplifications used, and elaborating on any management actions within the projections.

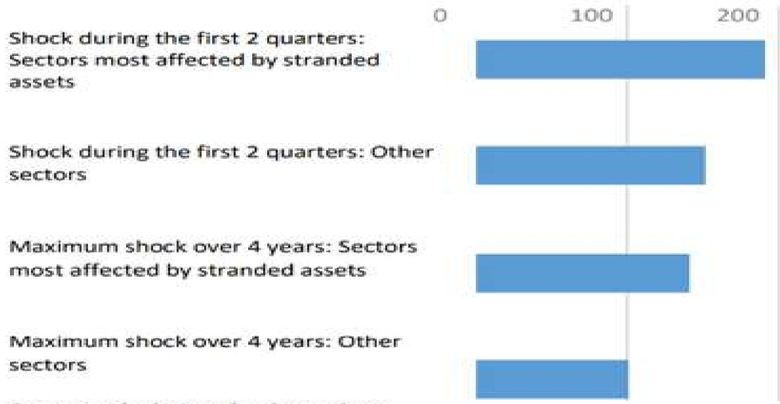
The submission templates for the long-term scenarios include a simplified balance sheet and other ad hoc statements, similar to the 2020-2021 submissions. The short-term submission templates are aligned to the sectoral granularity within the short-term assumptions. ACPR includes the following table (page 58) in its paper to summarise the statements requested from insurers in addition to the balance sheet projections.

Conclusion

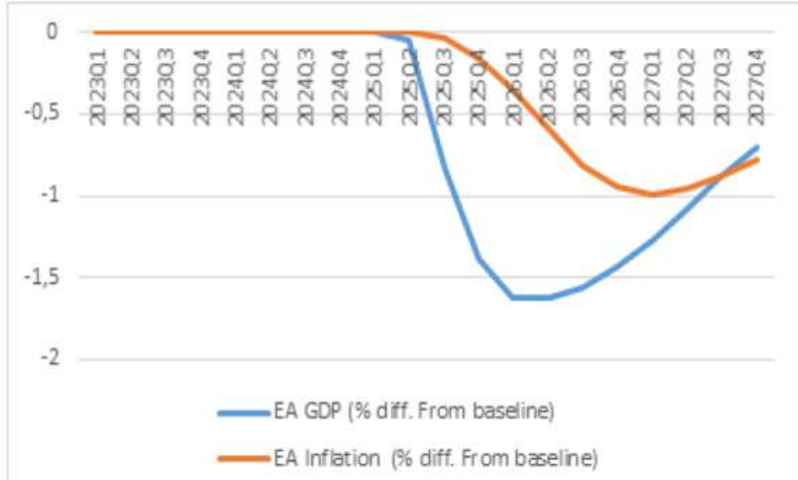
ACPR's 2023 stress test exercise will deliver a robust assessment of the insurance sector in France, with participation expected to cover over 80% of insurance exposures. This will be a valuable exercise for insurers, as they develop and enhance their climate change risk management framework. It will encourage long-term thinking alongside assessing the current sensitivities of the sector. Since the launch of the ACPR exercise in July, Europe has seen extreme wildfires and soaring temperatures in the south along with the wettest July on record in parts of the British Isles. Enhanced understanding of the vulnerabilities of the current balance sheet is crucial to managing climate-related risks.

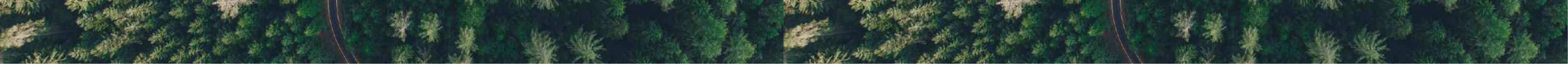
The timeline for the exercise is relatively short, with interim reports requested before 30th November 2023 and final submissions by the end of December 2023. The modelling required to quantify the scenarios is quite involved, requiring projections of both the asset and the liability sides of the balance sheet under multiple scenarios, along with the revaluing of investments under each scenario on a marked-to-market basis.

In this article, we have focused on the high-level description of the scenarios and the objectives outlined in the ACPR "Scenarios and main assumptions..." paper. The Annex to the ACPR paper and the Technical Guide provide details of the assumptions and how to use them. If you are interested in finding out more, our Finalyse experts are at hand to discuss the details of the exercise and to help your team develop a suitable modelling approach.



Source: calculations by the authors





Risk category	Type of risk studied	Exposures concerned	Geography	Portfolio segmentation	Projected values
Market risk	Revaluation of the portfolio based on market values	Asset portfolio	Segmentation by country or geographical area if country not available: France, Europe excluding France, US, RoW (or significant exposures sensitive to transition risk)	Sectoral segmentation for equity and credit spread risk and more aggregated segmentation for other risk factors including sovereign	Market value of the portfolios for 2025, 2030, 2035, 2040 and 2050 for the long-term scenarios and 2023, 2024, 2025, 2026 and 2027 for the short-term scenarios
Health Risk	Evolution of the main components of the income statement (premiums, claims, financial balance, reinsurance balance)	Health portfolio	French Exposures: distinction possible by major agglomerations if available in the information systems of the undertakings, whole France otherwise Foreign Exposures: by country or geographical area	Segmentation between health costs and other personal injury (incapacity/disability)	Value of the profit and loss account for 2025, 2030, 2035, 2040 and 2050 for the long-term scenarios and 2023, 2024, 2025, 2026 and 2027 for the short-term scenarios
Life technical risks	Evolution of the main components of the income statement (premiums, claims, financial balance, reinsurance balance, revaluation rate, DBP)	Life portfolio		Segmentation by life business lines (life insurance, savings, temporary deaths and others)	Value of the profit and loss account for 2025, 2030, 2035, 2040 and 2050 for the long-term scenarios and 2023, 2024, 2025, 2026 and 2027 for the short-term scenarios
Non-life technical risks (excluding health)	Evolution of the main components of the income statement (premiums, claims, financial balance, reinsurance balance)	Non-life portfolio		Segmentation by non-life business lines (personal injury, motor vehicle, property damage, natural disasters)	Value of the profit and loss account for 2025, 2030, 2035, 2040 and 2050 for the long-term scenarios and 2023, 2024, 2025, 2026 and 2027 for the short-term scenarios
	Evolution of the main exposures (number of insured risks, number of terminated risks because prices are inaccessible for the long term, insured values, CAT NAT premiums, CAT NAT claims)	Non-life portfolio impacted by natural disasters	French Exposures: distinction may be made by department if available in the information systems of the undertakings, whole France otherwise foreign Exposures: by country or geographical area	Segmentation by type of perils (droughts, floods, marine Submersions, tropical cyclones)	Value of the profit and loss account for 2025, 2030, 2035, 2040 and 2050 for the long-term scenarios and 2023, 2024, 2025, 2026 and 2027 for the short-term scenarios

HOW CAN FINALYSE HELP YOU?

Finalyse has extensive experience and expertise in risk management for insurers. We can assist you in the development and implementation of a climate change risk management framework. Our team of talented insurance professionals can support you in various areas:

- ACPR Climate Stress Test: Support with performing the stress tests and balance sheet projections, quantifying climate-related financial impacts, and preparing all the necessary documentation and templates for submission.
- Risk Management integration for climate change risks, including performing a gap analysis, developing a roadmap for integration, and updating relevant policies and procedures.
- Climate risk identification and materiality assessment on your asset and liability portfolios, defining data requirements, performing the materiality assessment, and hosting workshops to facilitate the process.
- Climate change scenario definition in line with regulatory requirements, including setting the high-level narratives and climate pathways, and defining more granular demographic and macroeconomic assumptions.
- Modelling and impact quantification to translate climate projections into financial and underwriting impacts, including the mapping of climate risks to traditional prudential risks, and deciding on the modelling approach for the short and long term.
- Strategy and business planning to incorporate climate change considerations, including possible management actions, business model changes, and identifying future opportunities and product innovation.
- Benchmarking on topics such as the use of qualitative vs. quantitative assessments, simplified projection options and publicly available tools, and providing insight from our dealings with EIOPA and local regulators.

Asset Management

Asset Management Regulatory Timeline

2023 Q4

MiCA
ITS
On use of ARTs as a means of payment (MiCA) (CP)
Document release: tbd

2024 Q1

AIFMD
RTS
RTS/Guidelines/technical advice based on mandates from review of AIFMD
Document release: tbd

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
Document release: tbd

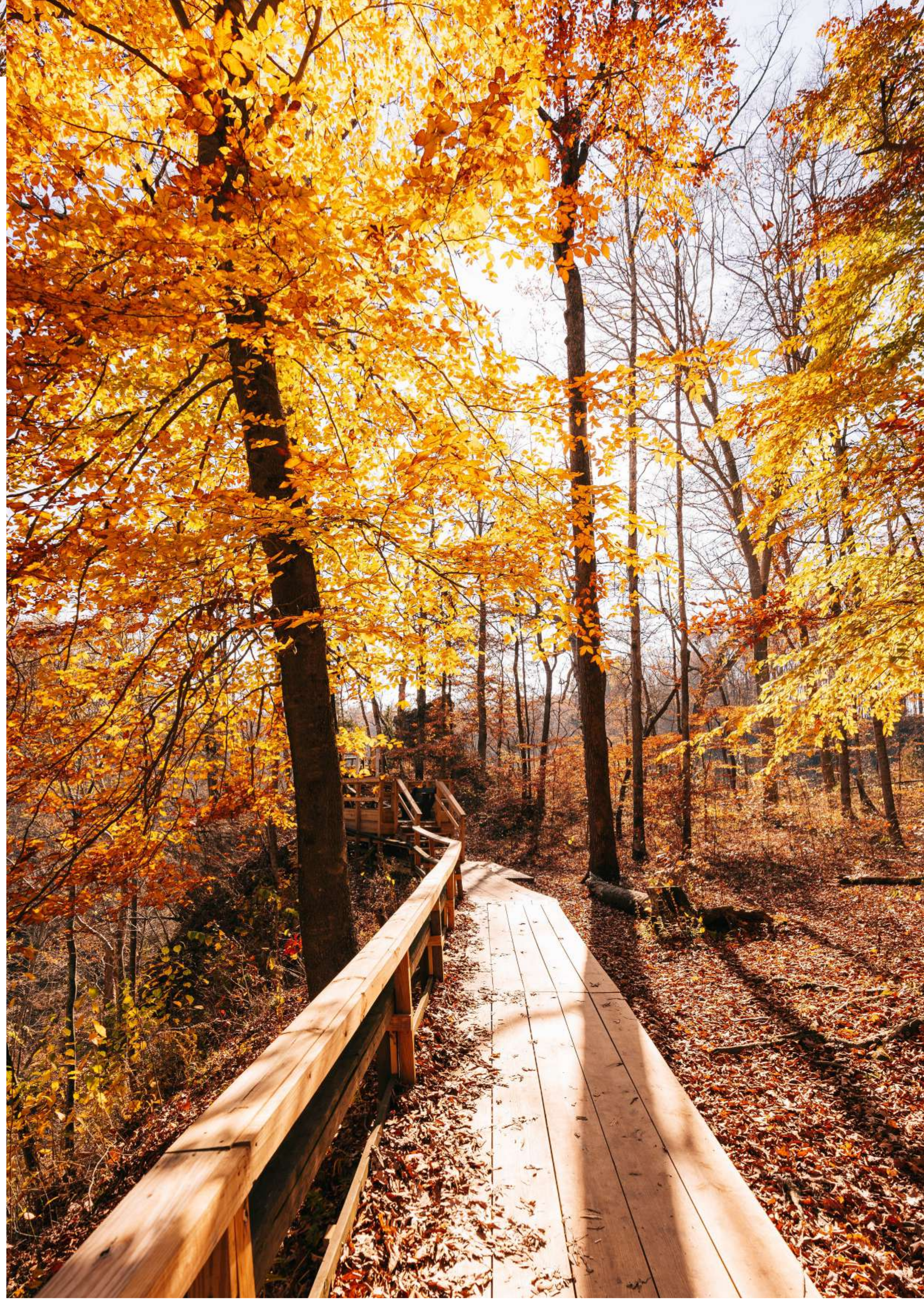
IFR
Guidelines
On calculation of K IRB for dilution and credit risk
Document release: tbd

MiCAR
Stress Test
EBA guidelines on Stress Testing (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



ARTICLE

CSSF THEMATIC REVIEW ON VALIDATION OF VALUE AT RISK MODELS USED BY UCITS FOR GLOBAL EXPOSURE CALCULATION

Written by Régis Deymié, Principal Consultant

The CSSF has recently conducted a thematic review evaluating the way the VaR models used by UCITS Management Companies are validated.
This review draws on paragraphs 3 and 4 of box 22 of the CESR's guidelines to evaluate the processes in place within UCITS Management Companies for the initial validation (paragraph 3) and the ongoing validation (paragraph 4) of the VaR Models used.

CESR Guidelines are already well established, as they were issued in 2010 by the CESR (which is the predecessor of ESMA). These rules further inspired the Alternative Investment Funds Directive (AIFMD) a few years later. Today, they are still binding to UCITS funds and should also be seen as reference for AIFMs, which gives a specific importance to this CSSF review.

As a result of this review the CSSF requests Investment Fund Management Companies (IFMs) to:

- Perform a comprehensive assessment of their existing VaR model validation framework against these observations before the end of 2023; and
- Implement, on that basis, in accordance with a given timeline, the necessary corrective measures (if applicable).

CSSF points of attention

In its review the CSSF provides observations on the practice found within some Luxembourgish IFMs. The CSSF also takes this opportunity to restate its vision of good practices.

The observations can be summarized into the following topics:

Independence of the VaR model validation

The CSSF emphasizes the importance that the validation of the VaR model is carried out by a unit independent from the unit in charge of the building process of the model. This means that IFMs should be able to demonstrate that the validation of their model does not involve conflicts of interests.

UCITS Coverage

The CSSF instructs that a validation should explicitly and adequately cover all the UCITS managed by the IFM for which the VaR model is used for global exposure calculation, thereby considering the specific investment strategies, portfolio positions and related risks.

IFMs should make sure that the validation shows that the model used is compatible and consistent with the type of strategy (long / short, fund of funds, specific market targeted), the type of instruments used (linear or non-linear pay offs, structured products), specific asset classes used (equity, interest rates, credit, foreign exchange, commodities), specific risk factor targeted (basis, spread, volatility).

This prevents from using a generic documentation of the model.

VaR Validation report

Where a third-party entity carried out the VaR model validation, the complete validation report must be available at the premises of the IFM in Luxembourg and be available to the CSSF upon request.

Mathematical assumptions and foundations underlying the model

The CSSF declares that the validation should not be limited to a high-level review of the mathematical assumptions/foundations of the model.

This request is consistent with the above requirement to provide a dedicated validation suitable to the particular situation of the IFM.

Review of the specific assumptions and approximations of the model

Parameters like confidence interval, horizon, decay factor, number of observations for the Montecarlo method etc. should be considered and stated in the validation.

Completeness of the VaR calculation

The CSSF insists on the obligation to cover all types of instruments in the model. If that is not possible, then the proxying process should be well structured.

Operational implementation of the VaR model by the IFM and related aspects

The CSSF expects the VaR model validation to take into account operational aspects that could impact the performance of the model.
Operational implementation is key and the validation of the model should consider all aspects of it. To our mind, the most important aspects are: data management that includes the collection of clean and reliable historical prices, integrity of data control, frequency of the update of the database, proxying process, and the review of the integrity of the portfolios.

Operational implementation should also take into account other aspects that are, for certain, specifically stated by the CSSF like back testing and stress testing.

Back-testing

The CSSF expects the following from IFMs:

- Analysis of any overshoot
- Specification of the conditions under which a review of the model could be triggered
- Global analysis of the overshoots: number of observation, concentration, amplitude ...

Stress-testing

The CSSF expects IFMs to set up a stress test framework that is complementary to the VaR.

IFMs' Challenges

Depending on their risk management organization, the CSSF points of attention present different challenges to IFMs, like costs, staff availability and capacity, access to the information, independence and conflicts of interests, systems etc ...

We consider three main types of organization, within IFMs in regards of VaR computation:

IFMs having its own model and runs the VaR independently.

These entities bear the burden of maintaining the computing process and complying with the guidelines requirements as reviewed by the CSSF. In this case the Management Company is entirely independent and if the process or the documentation presents some gaps, it can decide to upgrade its system by allowing internal investment.

Potential ongoing adaptation of the tool (new pricer to be added, new instrument mapping process, new source of market data etc...) as well as the related documentation that needs to be constantly updated represents additional costs that are not always considered by IFMs. On the other hand, the knowledge is in-house.

When talking about model validation, the main aspect that the IFM will have to consider apart from cost, is conflict of interest as the IFM should make sure that the validation process is performed by a team that is independent from the building team. The CSSF uses the term "unit" which provide some flexibility to the IFM in the choice of the validation team. An IFM being part of a group could assign the validation process to a team from the same group as long as it can ensure its independence.

IFMs using a model made available by an external provider.

In this case, the Management Company takes care of running the VaR computation on its own, relying on an external model. The CSSF in its review, describes some instances, where the validation is not specific enough. The review of the CSSF emphasises the importance for an IFM to rely on a model that adequately evaluates the risk of all its portfolios, and that covers each strategy, and all portfolios' positions.

Indeed, it may be challenging for an IFM to validate that all instruments are well mapped, or all risk factors are considered, when the IFM depends on a model that it does not manage and that sometimes may appear as opaque. The IFM could even be in a situation where it would be unable to comply with CESR Guidelines.

For example, to enable a structured product in a portfolio, the IFM needs to be able to ensure that all underlying risk factors are considered accounting also for potential embedded non-linear risks. This implies for the IFM a detailed knowledge of the system and the model or the support of the external provider to fulfil these requirements.

The CSSF mentions in its review that what it considers a "good practice", when the provider validation document is not detailed enough, is to "complete the validation exercise performed by a third-party entity on behalf of an external risk solution provider by an additional independent validation covering specifically the above-mentioned points."

In an extreme case, if the IFM is unable to enhance its validation, it may have to renounce some investments as long as it is unable to demonstrate its capacity to ensure a proper market risk management.

IFMs having outsourced VaR computation.

In this case the IFM relies on the provider for the production of the risk report and the maintenance of the model. The provider is then mandated by the IFM to provide the necessary transparency to the IFM.

However, as mentioned by the CSSF, the IFM retains the responsibility over its risk management process, and therefore should make sure the provider provides the necessary information, and that:

- The model is adapted.
- All positions are covered.
- The documentation is complete and contains at least (see CSSF review P8):

o the risks covered by the model;
o the model's methodology;
o the mathematical assumptions and foundations;
o the data used;
o the accuracy and completeness of the risk assessment;
o the methods used to validate the model;
o the back-testing process;
o the stress testing process;
o the validity range of the model; and
o the operational implementation.

It is therefore important for the IFM to challenge the provider and to have a precise understanding of the model and operational process used (which can be demonstrated by written evidence). That is why the IFM should conduct a thorough due diligence at inception and on an ongoing basis on the provider.

Therefore, outsourcing of the VaR computation activity does not mean that the IFM should blindly rely on the provider.

The main services that the external provider should propose (in addition to VaR computation itself), in regards of CESR Guidelines are:

- Precise and complete documentation to be shared with the IFM.
- Transparency vis à vis the IFM.
- Awareness of UCITS and AIFMD requirements.
- Support in case of Audit or CSSF request.

Conclusion

The CSSF review reminds the funds industry (the principles are believed to be applicable to a wider audience than UCITS), that the market risk measure used by IFMs to measure the global exposure of their funds is a highly sensitive and strategic decision.

Indeed, when choosing between commitment / leverage and VaR, the IFM should in the first place evaluate if the indicator is meaningful to accurately evaluate the market risk aspect of the strategy. But it should also consider its capacity to put in place and maintain a compliant process at all time. This decision should be considered also accounting for all implications in terms of capacity and costs for the Company.

By choosing VaR for all or part of its portfolios the IFM chooses a useful metric applicable to all types of assets and strategies, that is easily understandable and universally accepted. It allows the IFM to fulfil its duty of market risk management and to provide to its clients and controllers confidence in its risk management process in place.

But the IFM should consider all the implication of CESR guidelines as reviewed and commented by the CSSF, on the process to be put in place.
Computing VaR implies different costs that may sometimes be omitted in the decision to choose a solution.

Indeed, in addition to the team in charge of running the computation, the following costs are to be considered among others:

- Data management
- Maintenance of the tool
- Back testing / adaptation
- Documentation

In its Managed Services Offering, Finalyse proposes a fully outsourced market risk reporting to IFMs including VaR computation.

The principle for IFMs should be to take time analysing reports instead of producing them!

IFR
EBA (Consultation Paper)

Application of the Group Capital Test for Investment Firm Groups Under the IFR

The EBA has published a consultation paper setting out draft guidelines on the application of the group capital test for investment firm groups in accordance with the IFR. The guidelines aim to set harmonised criteria to address the observed diversity in the application of the group capital test across the EU. In particular, the guidelines identify criteria to assist competent authorities in their assessment of the simplicity of the group structure and the significance of the risk posed to clients and the market.

Release Date: 2023-07-25
Consultation End: 2023-10-25

EBA/CP/202/16

UCITS/AIFMD
Commission (Press Release)

Political Agreement on Regulatory Framework for Investment Funds

The European Commission issued a press release welcoming the political agreement that the European Parliament and Council had reached on the legislative proposals that were adopted as part of the Capital Markets Union package which amend the UCITS Directive and the AIFMD. The agreement reached is provisional as it still needs to be confirmed by the Council and the European Parliament before it can be formally adopted.

Release date: 2023-07-20

finance.ec.europa.eu

Supervision
FSB (Consultation Report)

Structural Vulnerabilities From Liquidity Mismatch in Open-Ended Funds

The FSB has published a Consultation Report on policies to address structural vulnerabilities from liquidity mismatch in open-ended funds. The report proposes revisions to the FSB's 2017 Policy Recommendations to address structural vulnerabilities from asset management activities. The proposals form part of the FSB's work programme on non-bank financial intermediation and should be read in conjunction with the IOSCO's consultation report providing guidance on anti-dilution liquidity management tools

Release date: 2023-07-05

P050723

Supervision
ESRB (Notice)

Policy options to address risks incorporate debt and real estate investment funds

The ESRB has published a notice describing how the EU regulatory framework for investment funds, could enhance the prevention and mitigation of systemic risks. The notice is mainly focused on investment funds with large exposures to corporate debt and real estate, but according to the ESRB, these policy options could be applied to other investement funds that share the same vulnerabilities on the market.

Release date: 2023-09-04

ESRB230904~930f8c100a

IFR
Commission (RTS)

Risks not Sufficiently Covered by the Own Funds Requirements

The Official Journal of the European Union has published a Commission Delegated Regulation supplementing the IFD with regard to RTS specifying the measurement of risks or elements of risks not covered or not sufficiently covered by the own funds requirements set out in Parts Three and Four of the IFR and the indicative qualitative metrics for the amounts of additional own funds.

Release date: 2023-08-31
Application Date: 2023-09-20

(EU) 2023/1668

IFD
Commission (RTS)

Liquidity Measurement of Investment Firms

The Official Journal of the European Union has published a Commission Delegated Regulation supplementing the IFD with regard to RTS for the specific liquidity measurement of investment firms under the IFD.

Release date: 2023-08-23
Application Date: 2023-09-04

(EU) 2023/1651

Risk Management

Supervision
IOSCO (Consultation Paper)

Anti-dilution Liquidity Management Tools

The IOSCO has published a consultation report on guidance for effective implementation of the recommendations for liquidity risk management for collective investment schemes. The report provides detailed guidance to support use of anti-dilution liquidity management tools by responsible entities for open-ended funds in both normal and stressed market conditions.

Release date: 2023-07-05
Consultation End: 2023-09-04

CR03/2023

Climate Risk

SFDR
ESMA (Press Release)

Sustainability-Related Disclosures and the Integration of Sustainability Risks

The ESMA has announced the launch of a common supervisory action with NCAs on sustainability-related disclosures and the integration of sustainability risks. The aim is to assess the compliance of supervised asset managers with the relevant provisions in the FDR, the Taxonomy Regulation and relevant implementing measures, including those relevant provisions in the UCITS and AIFMD implementing acts on integration of sustainability risks.

2023-07-06

esma.europa.eu

Market Environment

MMF Regulation
FSB (Report)

Thematic Peer Review on MMF Reforms

The FSB has published summary terms of reference for a thematic peer review on MMF reforms. The peer review will take stock of the measures adopted by FSB member jurisdictions to enhance MMF resilience in response to the FSB's 2021 policy proposals. In addition, as part of the peer review, the FSB invites feedback from stakeholders on how MMF vulnerabilities differ across jurisdictions and Progress made by FSB member jurisdictions in addressing MMF vulnerabilities.

Release date: 2023-08-16

P140723

MMF Regulation
Commission (Report)

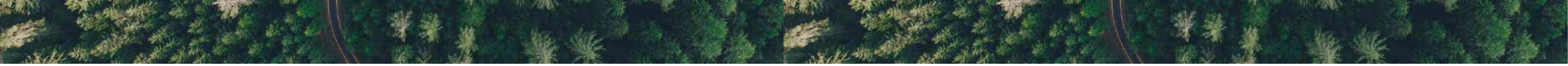
MMFs From a Prudential and Economic Point of View

The European Commission has published a report to the European Parliament and the Council on MMFs from a prudential and economic point of view. The report delivers on the legal mandate under the MMF Regulation for the Commission to submit a report to the European Parliament and to the Council, reviewing the adequacy of the MMF Regulation from a prudential and economic point of view.

Release date: 2023-07-20

COM(2023) 452 final

Cross sector



Cross-sector Regulatory Timeline

2023 Q4

Risk Analysis
Policy Agenda
Work on financial education with a focus on inflation, interest rates and sustainability
Document release: tbd

Report
2023 EU-wide Transparency exercise
Document release: tbd

Sustainable Finance
Report
Final report on greenwashing risks and supervision of sustainable finance policies
Document release: tbd

Thematic review
To manage C&E risks with an institution-wide approach covering business strategy, governance, risk appetite & risk management
Application date: 31 Dec 2023

Securitisation Framework
Guidelines
Monitoring report on capital treatment of NPE securitisation
Document release: tbd

2024 Q1

Sustainable Finance
Delegated Regulation
The EU Taxonomy Delegated Acts are expected to apply
Application date: Jan 2024

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

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
Application date: May 2024

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

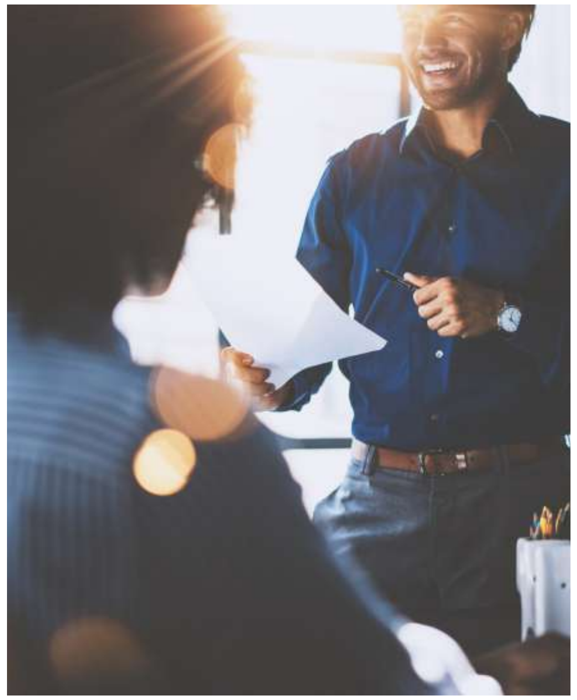
2024 Q4

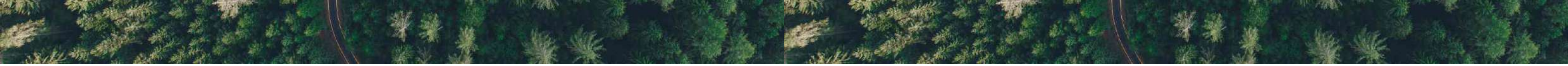
Sustainable Finance
Report
Pillar I report on sustainable Finance (pending CRR III mandate and deadline)
Document release: tbd

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





ARTICLE

DATA MANAGEMENT TOOLKIT

By Maria Nefrou, Managing Consultant

In the last decade, significant efforts have been made to enhance risk management practices in major banks related to data aggregation governance. The Basel Committee introduced BCBS 239 in 2013, aiming to establish a robust data management framework that improves internal and regulatory risk reporting and decision-making while reducing losses.

Although banks acknowledge the importance of BCBS 239 and have made progress, achieving full compliance remains challenging. None of the global systemically important banks have achieved complete compliance, leading to a prolonged implementation timeline. Compliance now extends to a wider range of banks, assessed based on progress and commitment.

BCBS 239 has become the leading standard, setting higher data management expectations for regulators and stakeholders. Its application covers various risk management processes, with banks determining the specific areas requiring compliance. Initially focusing on COREP and FINREP reports, the industry has expanded to include additional regulatory and internal reporting, making the BCBS 239 principles a "de facto" standard for essential business data.

To effectively implement BCBS 239, starting with a limited scope and gradually expanding the data management framework, is recommended, as well as taking a pragmatic approach in ensuring alignment with the principles and delivering the required reports. For that purpose, Finalyse has developed a data governance toolkit that seamlessly aligns with the regulatory framework, while offering a practical, hands-on approach to implement industry best practices, resulting in faster implementation. The Finalyse toolkit enables clients to adopt these practices efficiently, using as a starting point already a few steps down the process.

How Finalyse sees data management:

Finalyse acknowledges the imperative of investing in a centralised data management framework and effective data governance, and sees the following focus areas and approach when tackling data management:

Audit	Implement	Focus on Value	Organize	Strengthen	Long-term Change
• Conducting thorough assessments to evaluate data maturity and identify areas of improvement	• Assisting in the implementation of tailored data governance solutions aligned with the BCBS 239 guidelines	• Prioritising value-added reporting streams and aligning templates to specific requirements	• Ensuring clear deliverables and fostering collaboration between Risk, IT, and Data Offices	• Enhancing the overall data management infrastructure by addressing gaps and taking remediation measures	• Facilitating a holistic and sustainable transformation to achieve comprehensive data governance

Integrating the project lifecycle and recognizing the interdependence between Risk, IT, and Data Offices is a key element of the implementation approach, allowing to define clear deliverables for each iteration, while enabling efficient collaboration.

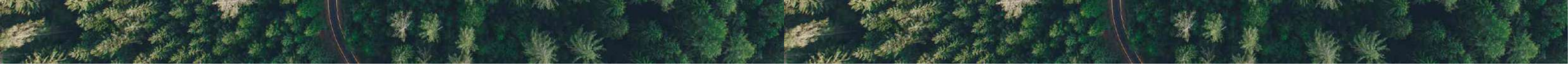
Smaller banks are learning from the mistakes of larger institutions and join the implementation of data governance to overcome administrative burdens, outdated data, and data quality challenges. To assist organisations in translating BCBS 239 principles into practical solutions, Finalyse offers a comprehensive toolbox for auditing data maturity and efficiently implementing tailored governance. Our toolkit is highly customisable, providing qualitative inputs for further quantitative analysis. It enables the evaluation of data management frameworks, compliance with regulatory standards, and identifies priority areas for focus. By addressing reconciliation issues and aligning data functions with technical aspects, our toolkit reduces implementation time and serves as a preliminary step before investing in automation.
Note that Finalyse has elaborated on its overall Data Management and BCBS 239 approach, on the following publications:

- Blog-Post: https://www.finalyse.com/blog/implementing-bcbs239
- Service Definition: https://www.finalyse.com/data-management-framework-implementation#c1866

A pragmatic approach to data Management Implementation:

Implementing data governance for managing and leveraging on data effectively, can be a rather complex and lengthy process. Finalyse supports and promotes the importance of adopting a pragmatic approach and sets the basis for capturing the minimum requirements which all organisations in the sector should adhere to, irrespective of their size, complexity, and regulatory obligations.

The Data Governance Toolkit offers a comprehensive solution to address challenges associated with implementing and maintaining robust data governance practices.



Lack of Data Governance Structure	• Provides a framework to establish clear roles, responsibilities, and processes related to data governance.
Inconsistent Data Definitions and Standards	• Addresses inconsistencies by establishing standardised data definitions and metadata management, enabling and enforce consistent data standards across the data lifecycle.
Data Quality Assurance	• Incorporates data quality management features, such as data profiling, cleansing, and validation capabilities, identify and rectify data quality issues, ensuring accuracy, completeness, and reliability.
Regulatory Compliance	• Adherance to data privacy regulations by providing functionalities for data classification, consent management, and data subject rights management, ensuring compliance with regulatory frameworks.
Data Security and Access Control	• Securing sensitive data and controlling access to it is essential for safeguarding confidential information. The Data Governance Toolkit offers robust data security measures, including encryption, access controls, and audit trails.
Data Lifecycle Management	• Facilitating the data lifecycle management by providing capabilities for data retention policies, archiving and disposal.
Data Governance Monitoring and Reporting	• Reporting and monitoring features, including data governance dashboards and analytics, allowing to track data governance metrics, identify areas for improvement, and demonstrate compliance to stakeholders.

From establishing a governance framework to ensuring data quality, compliance, and security, the toolkit empowers organizations to overcome data governance hurdles and leverage their data as a strategic asset. By adopting the Data Governance Toolkit, organisations can achieve enhanced data governance maturity, drive informed decision-making, and establish a strong foundation for their data-driven initiatives.

Key features of Data Management Toolkit

Finalyse has consolidated its best practices and adopted a value-centric approach for BCBS239 compliance. As a result, six practical tools, processes, and templates have been developed, easily customisable to any organisation's requirements.

1. Data Dictionary

The first feature of the toolkit comprises of the Data Dictionary template, which includes a standardised version of the business requirements. Data is categorised into seven attribute categories, such as individual, organisation, party basis data, party type, regulatory class, relation, and risk.

Each data attribute is described and can be linked to the corresponding business requirements, risk domain, and data warehouse location.

Through workshops, the business data owners may focus on defining priorities and reporting objectives and assess the necessity and priority of each attribute for meeting their report objectives. Priorities serve as a crucial input for creating an implementation plan that prioritises the attributes with the highest value. It also enables to link data attributes to the reporting streams they contribute to and, by doing so, focus on action plans, developments, automation and overall improving of the data quality to the reports prioritised in the BCBS 239 roadmaps.

2. Data Quality Control Inventory (DQCI)

The primary objective of this feature is to provide a clear representation of the existing controls, and document these effectively, by identifying key reporting standards and defining the controls' scope within the identified reporting framework.

Once the scope of a project or task is established, the relevant data shall be mapped in a process flow dictionary, which ensures that all data elements in scope are identified, understood, and accurately documented. Mapping the data, includes capturing information about the specific data fields, their definitions, formats, sources, and any relevant attributes. This step helps in creating a comprehensive inventory of the data elements involved, promoting clarity and consistency in data management. It also contributes to creating a clear reference for data management, enables effective analysis and decision-making, and establishes the necessary controls to ensure data integrity and security.

Next to data mapping, also the data dimensions are being identified. Data dimensions refer to the different aspects or categories that provide context to the data. This assists in understanding the various factors that influence the data and enables a better analysis and decision-making.

The dimensions are described below:

	Data Dimensions	
Data	Domain of value	The domain of value encompasses the dimensions of completeness and validity within the data. Completeness refers to the extent to which all required data within records is collected and provided. It ensures that both the necessary data within each record is present and that all required records are included. Validity, on the other hand, indicates how well the data adheres to defined business or system rules. It includes factors such as the domain of values and nomenclatures, which are designed to prevent data entry errors.
	Consistency	Consistency is achieved when data is in agreement with other related data. It ensures that data points that should be the same are the same, and data points that should be different are different. This consistency is crucial for maintaining data accuracy, reliability, and effective use in analysis and decision-making processes.
	Freshness	Certain data requires periodic review and updates to maintain its accuracy and relevance. Regular reviews ensure that the data reflects any changes in the underlying information. Keeping the data up-to-date and accurate is essential for making informed decisions based on the most current information available.
	Uniqueness	Uniqueness refers to the ability to distinguish individual records from one another. This is typically achieved by assigning a unique identifier or key, such as an ID, to each record. By ensuring that each record has a distinct identifier, organizations can easily differentiate between records and avoid confusion or errors when analysing or processing the data.
Process	Trend / evolution	Data trend/evolution involves aligning the data with the overall business expectations and global tendencies. It ensures that the data follows the expected patterns and changes in line with the evolving needs of the business.
	Integrity	Data integrity indicates the reliability of data as it moves across different systems and flows. It ensures that the data remains unchanged from its source to its destination, maintaining its accuracy, consistency, and reliability throughout the entire data lifecycle.
	Timeliness	Data timeliness refers to the availability of data when it is needed for use. It measures the time between when information is generated and when it becomes available for use. Timely data ensures that users have access to relevant and up-to-date information for effective decision-making and analysis.

One of the essential components of this tool is the Data Quality Control Index (DQCI). This index comprises of columns that offer dropdown options to facilitate user interaction. Users can select the appropriate options from these dropdown lists, thereby streamlining the process of applying data quality controls.

Overall, this tool serves as a comprehensive guide to understanding and documenting the existing controls in relation to specific reporting standards. It enables the identification of data elements, dimensions, and associated controls, providing a structured approach to managing data quality in the reporting process.

3. Reporting Inventory

The reporting inventory plays a crucial role in the reporting process as it provides pertinent information, ensuring adherence to harmonised reporting templates. The proposed template follows a specific sequence to streamline the inventory creation:

Scope Definition: The first step involves defining the scope of reports encompassing Risk, Finance, and Regulatory aspects, while ensuring all relevant data is incorporated.

Assignment of Responsibilities: All reports may be assigned specific responsibilities, ensuring clear ownership and accountability for their accurate and timely completion.

Inventory Establishment: The inventory describes all the necessary information related to each report, including details such as report name, purpose, data sources, key stakeholders, and any specific requirements or guidelines.

Validation of Inventory: The created inventory must be validated by internal and external contributors and stakeholders, ensuring that all relevant parties have reviewed and confirmed accuracy and completeness of the inventory.

Process Definition: To maintain the effectiveness of the inventory, defining and establishing a process to ensure regular updates, is essential. This process outlines the steps, responsibilities, and frequency of updating the inventory to reflect any changes or additions accurately.

By following this sequence, the reporting inventory becomes a reliable and comprehensive resource that supports efficient reporting processes. It provides a clear overview of the reports, their associated responsibilities, and the necessary information, ensuring accurate and consistent reporting across the organization.

4. EUC Scoring Template

End-User Computing applications are widely used in organisations for various tasks, from financial modelling to data analysis, adding one more layer of complexity in effectively managing and governing data.

The proposed data governance tool offers a comprehensive EUC scoring template designed to evaluate the risks posed by EUCs, and consists of the following features:

Risk Identification: The template proposes the identification of EUCs within the organisation and categorisation based on criticality and complexity, while laying the foundation for understanding the potential risks associated with each application.

Risk Assessment: It enables organisations to assess various risk dimensions, including data integrity, operational risk, and compliance, providing a scoring framework to evaluate each risk dimension, and allowing for a comprehensive analysis of EUC risks.

Mitigation Strategies: Once risks are identified and assessed, the EUC scoring template assists in developing effective mitigation strategies, while guiding organisations in implementing control measures, such as improved documentation, version control, user access restrictions, and regular review processes.

Enhanced Data Governance: By evaluating and addressing EUC risks, organisations can strengthen their overall data governance framework, leading to increased data integrity, reliability, and compliance with regulatory requirements.

Improved Decision-Making: The template enables organisations to make more informed decisions by ensuring accuracy and reliability of EUC-generated data. With a clearer understanding of EUC risks, management can confidently rely on these applications for critical decision-making processes.

Cost and Time Savings: Proactively managing EUC risks helps minimise the potential for errors, data inconsistencies, and costly remediation efforts, by streamlining processes and reducing manual interventions.

5. Project Data Maturity Scoring

Project data maturity refers to the level of data management and governance practices within an organisation's project. It encompasses processes, tools, and methodologies used to collect, analyse, store, and maintain project data. Assessing project data maturity allows organisations to identify gaps and implement improvements that enhance data quality and the overall project management lifecycle. The proposed template features the following items:

Maturity Assessment: It assesses various dimensions of project data maturity, such as data governance, data quality, data integration, data security, and data lifecycle management, providing insights on the existing data management practices.

Scoring Framework: It provides a structured scoring framework for measuring the maturity level of each dimension, assign scores based on predefined criteria, identify areas for improvement, and prioritize the data management efforts accordingly.

Actionable Recommendations: Actionable recommendations and best practices to enhance data management enable organisations to implement strategies such as data governance frameworks, data quality controls, data integration standards, and data security measures.

Improved Data Quality: By assessing project data maturity, organizations can identify data quality gaps and implement measures to enhance data accuracy, completeness, and consistency. This ensures reliable and trustworthy project data, leading to informed decision-making.

Compliance and Risk Mitigation: This helps ensure compliance with data privacy regulations and mitigate data-related risks. By implementing data governance and security measures, organisations can protect sensitive project data, maintain regulatory compliance, and safeguard their reputation.

6. BCBS239 Assessment Questionnaire Template

To assist the process of assessing compliance with BCBS239, the Data Governance Toolkit also offers an Assessment Questionnaire Template. Specifically, the key features of which are listed below:

Comprehensive Coverage: The questionnaire covers the key principles outlined in BCBS239, addressing areas such as data governance, risk data aggregation capabilities, reporting processes, data quality management, and technology infrastructure.

Evaluation Framework: The template provides a structured framework to assess compliance with each BCBS239 principle. It includes a series of targeted questions that prompt organisations to evaluate their current practices and identify areas for improvement.

Actionable Recommendations: Based on the assessment results, the template offers actionable recommendations to enhance compliance with BCBS 239. These recommendations guide financial institutions in implementing necessary changes, such as establishing data governance committees, enhancing data quality controls, improving data lineage documentation, and strengthening reporting frameworks.

Regulatory Compliance: The toolkit helps assess adherence to BCBS 239 requirements, ensuring that regulatory expectations are met, and penalties and reputational damage are avoided, while demonstrating a commitment to sound risk data management.

Enhanced Risk Management: Evaluating compliance with BCBS 239 principles allows institutions to identify gaps in risk data aggregation and reporting. By implementing the toolkit's recommendations, organisations can enhance their risk management capabilities, leading to more informed decision-making and improved risk mitigation strategies.

Efficiency and Transparency: The toolkit promotes efficiency and transparency in risk data processes. It assists organisations in streamlining data governance practices, establishing standardised data definitions, and improving data quality. This, in turn, facilitates smoother operations and reliable reporting mechanisms.

Conclusion

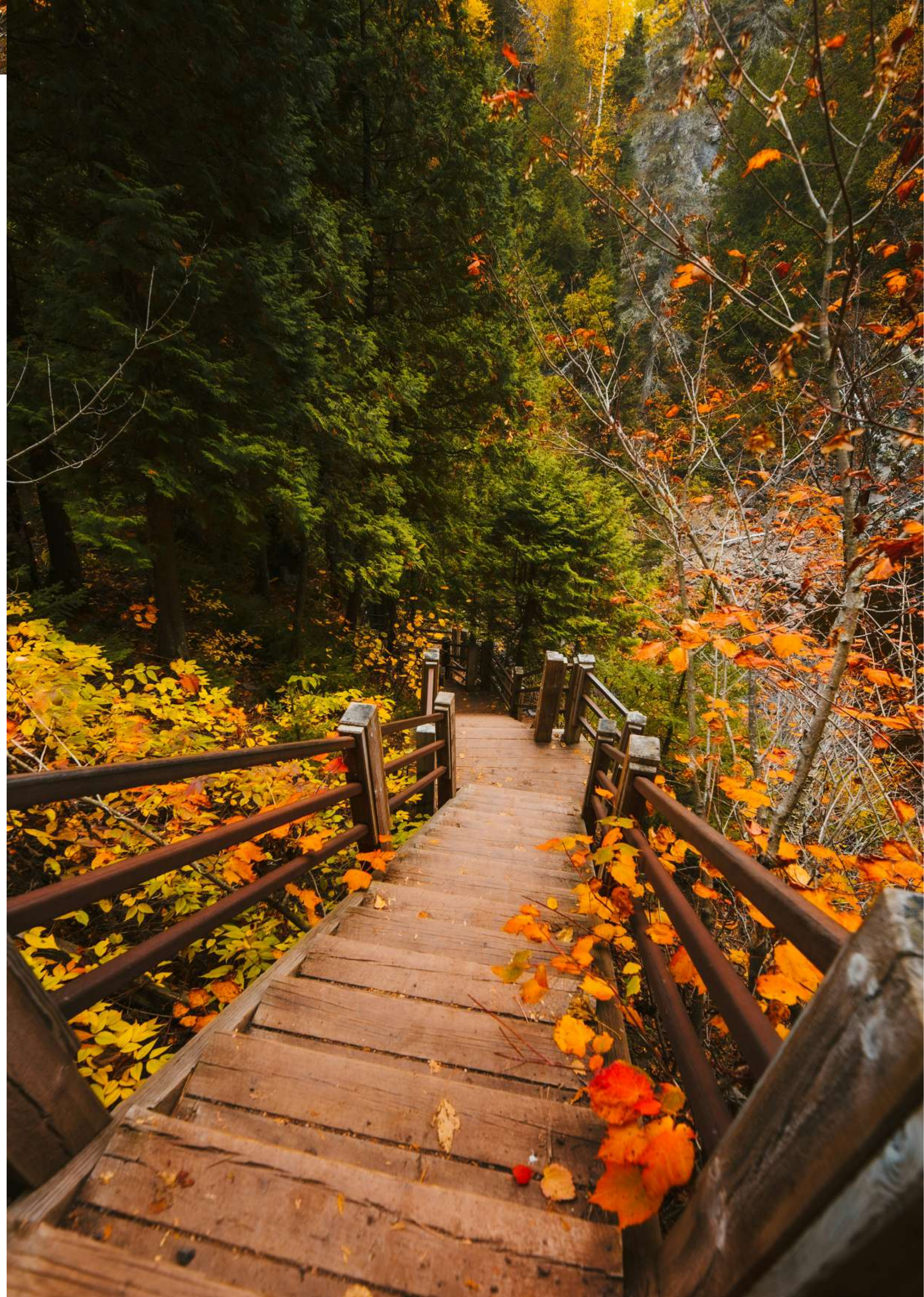
BCBS 239 related governance should now be considered for implementing in a wider range of organisations, than systemic institutions. Smaller banks and late adopters can benefit from the extensive experience gathered along the years in multiple data governance projects and use this as a basis for implementing the minimum standards for data governance.

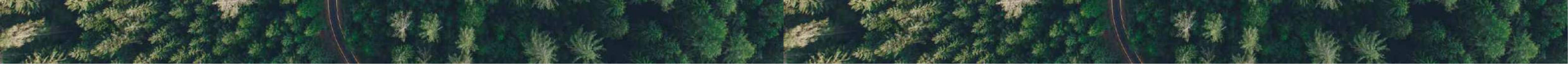
Summarising these insights, the Finalyse toolkit is offering hands-on best practices in order to start a new governance from scratch or to audit governance that has proven limited to deliver the desired results. The toolkit is highly customisable to the specificities of every different banks.

Finalyse's recommendation lies on the value of 'starting small' and 'grow steady', identifying a reporting stream that should be analysed with priority, deploy, and adapt the toolkit for this specific stream. Further, gain insight on how to make it achieve the specific goals of the organisation it is applied to, then extend the scope on new reporting streams iteratively.

Applying this agile way of working we can make sure promised value expected from this governance is delivered as soon as possible for a small scope. Proportionating the effort to the value it creates to reports and data owners being a key factor of success for the implementation of a new data management framework.

Do not hesitate to request a free workshop to be introduced to the different features of toolbox and identify the parts and approach that would suit your governance goals.





Supervision

Benchmark Regulation

Commission (Delegated Act)

Extension of EU BMR Transitional Regime for Third Country Benchmarks

The European Commission has adopted a draft delegated act that extends the transitional period for third-country benchmark administrators as set out under the EU Benchmarks Regulation. The current BMR transitional provisions are set to expire on 31 December 2023; the draft delegated act extends this period until 31 December 2025.

Release date: 2023-07-14

C(2023) 4849

Supervision

ESMA (Report)

Call for Evidence on Pre-Hedging

The ESMA has published a report on the call for evidence on pre-hedging. The practice of pre-hedging is not defined in EU law and is understood as a practice which takes place when liquidity providers aim to hedge their inventory risk in an anticipatory manner. The report concludes that, pre-hedging might give rise to conflicts of interest or abusive behaviours. Whilst ESMA does not find arguments to ban this practice at this stage, it also flags that these risks should be considered when issuing any future guidance.

Release date: 2023-07-12

ESMA70-449-748

Reporting & Disclosure

SFDR

ESAs (Report)

Voluntary disclosure of Principal Adverse Impact under SFDR

The Joint Committee of the ESAs has released their second annual report on the voluntary disclosure of principal adverse impacts (PAI) under SFDR. The report indicates that there has been an overall improvement compared to the previous year, although there are still variations in compliance and disclosure quality across financial market participants and jurisdictions. The report includes recommendations for the European Commission to consider for future assessments of the SFDR.

Release date: 2023-09-28

eiopa.europa.eu

Policy Agenda

Benchmark Regulation

FSB (Report)

Final Reflections on the LIBOR Transition

The FSB has published its final reflections on the LIBOR transition. The end of June 2023 marked the end of the remaining USD LIBOR panel. Only three of the US dollar LIBOR settings will continue in a synthetic form after June 2023 and are intended to cease at end-September 2024. In addition, reform of other interest rate benchmarks and related transition efforts have either been completed or are near their planned conclusion.

Release date: 2023-07-28

Ref: 23/2023

Risk Management

EMIR

FSB (Consultation Report)

Toolbox of Financial Resources for the resolution of Central Counterparties

The FSB has published a consultation report proposing a toolbox of financial resources and tools for the resolution of central counterparties (CCPs). This approach aims to ensure that adequate liquidity, loss-absorbing, and recapitalization resources and tools are available to maintain the continuity of critical functions if a CCP resolution becomes necessary.

Release Date: 2023-09-19

fsb.org

Securitisation Framework

IOSCO (Consultation Report)

IOSCO consults on leveraged loans and CLOs good practices for consideration

The IOSCO has released a consultation report concerning leveraged loans (LLs) and collateralized loan obligations (CLOs) aimed at establishing good practices. The IOSCO is examining these markets for investor protection, market fairness, transparency, and systemic risk. The report provides an overview of these markets, discusses identified vulnerabilities, and presents twelve proposed good practices across five themes.

Release Date: 2023-09-14
Consultation End: 2023-12-15

IOSCOPD746

IFRS

IASB (Technical Standards)

Annual Improvements to IFRS Accounting Standards - Volume 11

The IASB has released an Exposure Draft proposing minor amendments to the IFRS Accounting Standards and related guidance. These amendments aim to clarify language, address minor unintended issues, oversights, or conflicts in the standards. The proposed changes in Volume 11 of the Annual Improvements to IFRS Accounting Standards cover areas such as hedge accounting for first-time adopters, financial instruments disclosures, lease liabilities, and more.

Release date: 2023-06-13
Consultation End: 2023-09-12

ifrs.org

EMIR

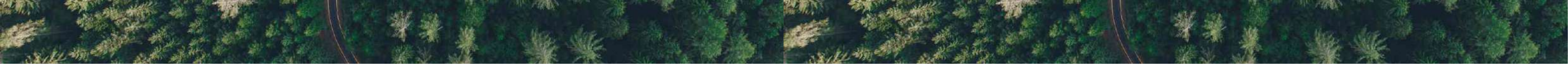
EBA (RTS)

Initial Margin Model Validation

The EBA has published a final draft RTS on initial margin model validation under the EMIR. In order to enhance compliance with the margin framework for non-cleared over-the-counter derivatives laid down by the BCBS and the IOSCO, the final draft RTS on IMMV sets out the supervisory procedures for the validation of initial margin models applied for the exchange of IM.

Release date: 2023-07-06

EBA/RTS/2023/04



Climate Risk
TNFD (Recommendations)

Recommendations on Nature-related Financial Disclosures

The Taskforce on Nature-related Financial Disclosures (TNFD) has published its recommendations that aim to help businesses and financial institutions incorporate nature-related considerations into their decision-making, risk management, and disclosures. They include general requirements for nature-related disclosures and specific recommendations in areas like governance, strategy, risk management, impact management, and metrics.

Release date: 2023-09-20

tnfd.global

SFDR
Commission (Consultation)

Targeted consultation on the implementation of the SFDR

The European Commission has initiated a targeted consultation on the SFDR. This targeted consultation is aimed at those familiar with SFDR, assessing its practicality, interactions with other sustainable finance regulations, and potential shortcomings, while also exploring future improvements.

Release date: 2023-09-14
Consultation End: 2023-12-15

finance.ec.europa.eu

SFDR
Commission (Consultation Paper)

Public consultation on the implementation of the SFDR

The European Commission has initiated a public consultation on the SFDR. This public consultation seeks input from a broad range of stakeholders on the current state of SFDR and potential implementation challenges.

Release date: 2023-09-14
Consultation End: 2023-12-15

finance.ec.europa.eu

CSRD
Commission (Press Release)

European Sustainability Reporting Standards

The European Commission has announced that it has adopted the European Sustainability Reporting Standards for use by all companies subject to the CSRD. The ESRS will be mandatory for use by companies that are obliged by the EU Accounting Directive to report certain sustainability information. By requiring the use of common standards, the EU Accounting Directive, as amended by the CSRD, aims to ensure that companies across the EU report comparable and reliable sustainability information.

Release date: 2023-07-31

C(2023) 5303 final

Policy Agenda
Commission (Report)

Climate Resilience Dialogue

The European Commission has published an interim report on climate resilience dialogue. The Climate Resilience Dialogue aims to reduce the climate protection gap through facilitating exchanges between insurers, reinsurers, public authorities, and other stakeholders, such as real-estate developers and infrastructure operators, as set out in the 2021 EU Adaptation Strategy and in the Strategy for Financing the Transition to a Sustainable Economy. Both strategies are part of the European Green Deal and aim to increase and accelerate the EU's efforts to protect nature, biodiversity, people and livelihoods against the unavoidable impacts of climate change.

Release date: 2023-07-28

climate.ec.europa.eu

Market Trends
FSB (Report)

Addressing Financial Risks from Climate Change

The FSB has published its 2023 progress report on the Roadmap for addressing climate-related financial risks. This second progress report takes stock of further progress since the July 2022 progress report, identifies and addresses areas requiring further attention, strengthens coordination across the different international initiatives and provides updates where needed to the detailed Roadmap actions (set out in the Annex to the progress report).

Release date: 2023-07-13

P130723

Supervision
Commission (Recommendations)

Facilitating Finance for the Transition to a Sustainable Economy

The Official Journal of the European Union has published the Commission Recommendation on facilitating finance for the transition to a sustainable economy. The Recommendation aims to support market participants that wish to obtain or provide transition finance by offering practical suggestions on how to approach transition finance. In particular, the Recommendation clarifies the concept of transition finance, acknowledging the significant role that market participants can play by voluntarily using tools from the Union sustainable finance framework, as needed for transition finance.

Release date: 2023-07-07

(EU) 2023/1425

Crowdfunding Regulation
Commission (RTS)

Credit Scoring, Pricing and risk Management Policies of Crowfunding Projects

The European Commission has published a Delegated Regulation supplementing the crowdfunding Regulation that outlines detailed technical standards for credit scoring in crowdfunding projects, pricing of crowdfunding offers, and risk management procedures. It also specifies factors for fair loan pricing and credit risk assessment, with proportional methods based on loan size and project characteristics. Finally, it mandates governance arrangements and risk management frameworks for crowdfunding service providers, with proportionality to their size and complexity.

Release date: 2023-09-29

C(2023) 6442

Market Trends
FCA (Study)

Wholesale Data Market Study

The FCA has published a Market Study on Wholesale Data Market. The FCA launched the study on 2 March 2023, following persistent user concerns about how well wholesale data markets were working. The study focuses on competition in the provision of benchmarks, credit ratings data and market data vendor services. It forms part of the FCA's wider work on wholesale data, which includes the trade data review, whose findings and next steps were published alongside the launch of the market study.

Release date: 2023-08-31

fca.org.uk

Market Trends
ESAs (Report)

Risks and Vulnerabilities in the EU Financial System

The ESAs have released their Autumn 2023 Joint Committee Report, emphasizing the ongoing high economic uncertainty in the EU financial system. The ESAs warn national supervisors of the financial stability risks due to factors like geopolitical tensions, high inflation, and an uncertain outlook. It also mentions the sensitivity of the European financial system to shocks and the impact of interest rate increases on different sectors and call for vigilance from all financial market participants.

Release date: 2023-09-18

JC 2023 44

Market Trends
IOSCO (Report)

Current CCP to Address Non-Default Losses

The CPMI and the IOSCO have published a report and accompanying cover note on current central counterparty practices to address non-default losses. The purpose of the report is to present current practices among CCPs in addressing potential losses arising from non-default events in order to facilitate the sharing and common understanding of existing practices.

Release date: 2023-08-23

IOSCOPD743

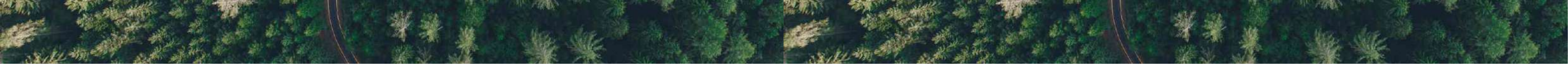
Market Trends
ESRB (Report)

Liquidity and Leverage Risks in Investment Funds

The ESRB has published a compliance report, which provides an assessment of the implementation of its Recommendation on liquidity and leverage risks in investment funds. The compliance report provides a recap of the Recommendation's policy objectives and summarises the methodology set out in the ESRB Handbook, which establishes the procedure for assessing compliance with ESRB Recommendations.

Release date: 2023-07-04

202306~2fea1d7ec9



Finalyse Partners

Benoît Leman
Managing Partner
benoit.leman@finalyse.com

Silvio Santarossa
Partner
Risk Advisory Services
silvio.santarossa@finalyse.com

Thomas Gillet
Partner
Risk Advisory Services
thomas.gillet@finalyse.com

Yannis Pitaras
Partner
Risk Advisory Services for Insurance
yannis.pitaras@finalyse.com

Marc-Louis Schmitz
Partner
Managed Services
marc-louis.schmitz@finalyse.com

Ali Bilge
Partner
Valuation Services
ali.bilge@finalyse.com

Finalyse offices

Amsterdam
Parktoren – Van Heuven Goedhartlaan
1181LE Amstelveen
+31 20 808 36 28

Brussels
"The Artist", Avenue des Arts 9
1210 Brussels
+32 2 537 43 73

Budapest
Széchenyi István tér 7-8
1051 Budapest
+36 1 354 18 90

Dublin
Upper Pembroke Street 28-32
D02 EK84 Dublin
+353 1 608 7705

Luxembourg
12 rue Jean Engling Bte 9B
1466 Luxembourg
+352 27 40 1757 (Consultancy)
+352 260 927 (Valuation services)

Paris
13-15 Rue Taitbout
75009 Paris
+32 2 537 43 73

Warsaw
Al. Jana Pawla II 23,
00-854 Warszawa
+48 22 653 85 93

General Requests
+32 2 537 43 73
info@finalyse.com

Banking
banking@finalyse.com

Insurance
insurance@finalyse.com

Valuation Services
valuation@finalyse.com