



Regulatory Radar
June 2019

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Regulatory Highlights

1. European Union's risk reduction measures (RRM) package

On 7 June the following revised rules have been published in the Official Journal of the European Union (OJ):

- the second Capital Requirements Regulation (CRR 2): [Regulation \(EU\) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending the CRR as regards the leverage ratio, the net stable funding ratio \(NSFR\) requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and the European Market Infrastructure Regulation \(EMIR\)](#); and
- the fifth Capital Requirements Directive (CRD 5): [Directive \(EU\) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending CRD 4 as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures](#).

The new CRR 2 and CRD 5 introduce important changes to the prudential framework. On the one hand, the legal requirements for the leverage ratio and the NSFR, which until now have only been included as a reporting obligation, become binding. In addition, the package also reviews the way some risks are measured, such as counterparty credit risk or interest rate risk within the banking book. Initially, market risk requirements were also going to be included, but the Basel Committee on Banking Supervision published the final standards in the middle of the negotiations, so EU legislators decided to postpone it. New rules are also introduced for exposures to central counterparties and for large exposures.

On the other hand, another set of reforms respond to technical improvements in the regulatory framework. Among them, an attempt is made to provide greater proportionality to regulatory requirements, mainly in terms of reporting, information disclosure or remuneration. Finally, the [Pillar 2 framework](#) is reviewed, in order to make it more homogeneous and comparable between entities, and changes are introduced in the macroprudential capital cushions, making the framework more flexible for large entities.

On the same day, [Directive \(EU\) 2019/879 of the European Parliament and of the Council of 20 May 2019 amending the Bank Recovery and Resolution Directive \(BRRD\) as regards the loss absorbing and recapitalisation capacity of credit institutions and investment firms and Directive 98/26/EC](#) was published in the OJ. This Directive is widely referred to BRRD 2.

The amendments to BRRD include:

- amendments to the requirement for contractual recognition of bail-in: the EU is introducing an exemption to the requirement where it would be legally or otherwise impracticable to include a contractual recognition of bail-in in a contract. The exemption will not apply where the liability is an Additional Tier 1 instrument, Tier 2 instrument or unsecured debt instrument;
- new early intervention powers for regulators: National regulators will be able to:
- suspend any payment or delivery obligations, subject to certain conditions being met, for a fixed period of two business days;
- restrict the enforcement of security interests; and
- temporarily suspend termination rights;
- introduction of a requirement for contractual recognition of resolution stay powers: financial contracts entered into by EU banks that are governed by the laws of a non-EU country will need to include a clause with contractual recognition of the resolution stay powers; and
- amendments to the Minimum Requirement for own funds and Eligible Liabilities (MREL) calibration: currently, MREL's requirements are based upon own funds and eligible liabilities expressed as a percentage of total liabilities and own funds and this is set for each institution. Under BRRD II, a fixed MREL will apply to EU global systemically important financial institutions (G-SIIs), with institution-specific MREL being applied where appropriate. The global total loss absorbing capacity (TLAC) standard has been implemented for EU G-SIIs in changes to the EU's CRR.

EU Member States are required to transpose the amending Directive into their national laws and to apply the provisions by no later than December 28, 2020, except for provisions relating to MREL, which apply from January 1, 2024.

Finally, [Regulation \(EU\) 2019/877 of the European Parliament and of the Council of 20 May 2019 amending the Single Resolution Mechanism Regulation \(SRMR\) as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms](#) was also published in the OJ. This new Regulation is widely referred as SRMR II. SRMR II relates to implementation of the TLAC standard in EU law, which needs to take into account the existing institution-specific MREL that applies to all credit institutions and investment firms established in EU as well as to any other entity as laid down in BRRD 2.

These Regulations and Directives entered into force on 28 June 2019.

2. Belgian Office Journal

On 28 June the Royal Decree approving the Regulation of 13 June 2019 of the National Bank of Belgium (NBB) on the determination of countercyclical buffer rate (CCyB) was published in the Belgian Official Journal ([NL/FR](#)).

On the same day, the NBB published a [press release](#), announcing it will increase the CCyB for credit risk exposures to the Belgian private non-financial sector from 0% to 0.5% for the third quarter of 2019.

In view of the acceleration of the Belgian credit cycle for the private non-financial sector, a precautionary and gradual build-up of CCyBs is justified to ensure sufficient resilience in the Belgian banking sector, to secure the necessary absorption capacity for potential credit losses and to safeguard the continuity of credit supply to the Belgian economy going forward. These buffers will be immediately released in the event of a financial shock. Should cyclical systemic risks decrease and the credit cycle turn, these additional buffer requirements will be relaxed towards a 0 % neutral level, commensurate with the cycle.

The measure entails the build-up of an additional buffer of approximately € 1 billion for the Belgian banking sector. Given Belgian banks' current solvency position and the relatively limited 0.5 % buffer rate imposed, this measure should not disrupt credit pricing or credit availability to the Belgian economy.

This decision is in line with numerous other European countries, including France, Luxembourg and Ireland, which have activated or increased the CCyB. Moreover, it is subject to a one-year implementation period, which means that the countercyclical buffer rate of 0.5 % will become binding as from 1 July 2020. Lastly, this measure is subject to mandatory reciprocity and hence applies to all EU banks operating in Belgium, at both the individual and the consolidated level.

3. Publication of the FSMA sectoral report on compliance with the conduct of business rules governing conflicts of interest and inducements by insurers, of the Inducements Code of Conduct and of the Royal Decree on professional requirements

On June 21 the FSMA published its sectoral report on compliance with the conduct of business rules governing conflicts of interest and inducements by insurers. On the same day the Inducements Code of Conduct was also published and a few days later, on 25 June, the Royal Decree (RD) setting out the professional requirements for the insurance distributors was published in the Belgian Official Journal.

Sectoral report on conflicts of interest and inducements by insurers

On June 21 the FSMA published its sectoral report on compliance with the conduct of business rules governing conflicts of interest and inducements by insurers ([NL/FR](#)).

The report provides an overview of the key findings following a transversal inspection at insurance undertakings on the application of the conduct of business rules in relation to conflicts of interest and inducements. The focus was on branch 23 insurance products sold to retail customers.

The key findings

Based on the outcome of the inspections, the FSMA concludes that current conflicts of interest policies and procedures are often too vague or not tailored enough to the specific situation of the insurer. Insurers need to take additional measures to prevent conflicts of interest and to (better) communicate on those conflicts of interest that cannot be adequately managed. The FSMA also noted that the difference between the conflicts of interests mapping and the conflicts of interests register was sometimes not sufficiently clear. They have also confirmed that, with IDD, also tied agents are required to develop at their own level a conflicts of interest policy.

Regarding the inducements, the FSMA found that the inducements analysis was often not performed by the insurer or based on irrelevant criteria. With respect to the remuneration of commercial employees and intermediaries, the results show that the remuneration techniques used by the insurance undertakings are mostly focused on promoting sales volumes. In its report, the FSMA urges insurers to be extra vigilant with certain remuneration techniques and non-monetary incentives and promotes the inclusion of qualitative criteria, or clawback regimes.

Specifically for branch 23 products, additional attention should be paid to the conflicts of interest that are inherently linked to retrocessions, particularly when this amount is not retroceded to the client. Overall the FSMA also concludes that insurers insufficiently monitor and control their internal policies and procedures: i.e. insufficient first line controls are in place, and/or the second line is not (soon enough) involved.

Inducements Code of Conduct

On 21 June the [RD of 17 June 2019 approving the Inducements Code of Conduct for life and non-life insurance products](#) was published in the Belgian Official Journal.

The Inducements Code of Conduct has been drafted by the insurance sector but was submitted to the FSMA for advice, as required by the Insurance Act of 6 December 2018.

The code focusses on detailed rules for non-monetary incentives in particular, specifying the conditions for insurers to continue to organise training seminars and events for the benefit of their intermediaries and commercial employees. The code also includes general principles that apply to all types of inducements, i.e. the principle of proportionality and conflicts of interest, as well as a non-exhaustive list of inducements that are considered to have a negative (detrimental) impact on the service provided to the client.

The Inducements Code of Conduct entered into force on 1 July 2019.

RD on professional requirements

On 25 June the RD of 18 June 2019 implementing articles 5, 19° /1, 264, 266, 268 et 273 of the Insurance Act of 4 April 2014 was published in the Belgian Official Journal ([NL/FR](#)).

The new RD replaces the RD of 25 March 1996 implementing the Act of 27 March 1995 on insurance intermediation and distribution.

It sets out the requirements with respect to:

- the registration of (re)insurance intermediaries and ancillary intermediaries;
- the notification obligation of (re)insurance undertakings (activity, number of persons in contact with public (PCPs), etc.);
- the number of Responsible(s) for Distribution to appoint;
- the professional Liability Insurance;
- the professional competence: the professional knowledge and competence requirements will be determined per types of product: non-life, life and insurance based investment products (IBIPs); and
- ongoing training: the main difference with the AssurMIFID regime is that the number of training hours is now fixed at 15 hours per year instead of 30 hours in 3 years.

The RD also specifies the notion of “professional client” for which reference is made to the definition included in MiFID II (criteria defined in the [annex of the RD bearing execution of article 2, al 1, 28° of the Act of 2 August 2002 on the financial sector and services surveillance](#)).

The RD foresees a transitory regime depending on the date of registration of the intermediary.

Conduct of Business & Products

Normative documents

See Highlight 3 on the publication of the FSMA sectoral report on compliance with the conduct of business rules governing conflicts of interest and inducements by insurers, of the Inducements Code of Conduct and of the Royal Decree on professional requirements

European Commission (EC)

EC publishes guidelines on sustainable finance and welcomes reports on climate finance

On 20 June the [communication from the EC containing guidelines on non-financial reporting](#) was published in the Official Journal of the European Union (OJ). These new guidelines on corporate climate-related information reporting are part of the EC's sustainable finance action plan. They will provide companies with practical recommendations on how to better report the impact that their activities are having on the climate as well as the impact of climate change on their business.

On the same day, the EC also welcomed the publication of three new important reports by the Technical Expert Group (TEG) on sustainable finance, including key recommendations on the types of economic activities that can make a real contribution to climate change mitigation adaptation (taxonomy). This includes:

- a classification system – or taxonomy – for environmentally-sustainable economic activities aiming at providing practical guidance for policy makers, industry and investors on how best to support and invest in economic activities that contribute to achieving a climate neutral economy;
- an expert report on an EU Green Bond Standard that recommends clear and comparable criteria for issuing green bonds. In particular, by linking it to taxonomy, it will determine which climate and environmentally-friendly activities should be eligible for funding via an EU green bond.; and
- an EU TEG report on EU climate benchmarks and benchmarks' environmental, social and governance (ESG) disclosures. This report sets out the methodology and minimum technical requirements for indices that will enable investors to orient the choice of investors who wish to adopt a climate-conscious investment strategy, and address the risk of greenwashing. The report also sets out disclosure requirements by benchmark providers in relation ESG factors and their alignment with the Paris agreement.

Council of the European Union (EU Council)

EU Council adopts new rules facilitating access to pension products and investment funds

On 14 June the EU Council adopted three key reforms in the framework of the Capital Markets Union (CMU):

- The Regulation on a pan-European Personal Pension Product (PEPP): creates a new type of voluntary personal pension product. The Regulation will enter into force on the twentieth day following its publication, and will apply as from 12 months after this date;
- The Directive amending the Undertakings for Collective Investment in Transferable Securities (UCITS) Directive and the Alternative Investment Fund Managers Directive (AIFMD) with regard to cross-border distribution of collective investment undertakings: aims at enhancing the current regulatory framework applying to investment funds by removing the remaining certain barriers that still hamper the ability of fund managers to fully benefit from the internal market. The Directive will enter into force on the twentieth day following its publication, and will apply as from 24 months after this date;
- The Regulation on facilitating cross-border distribution of collective investment undertakings and amending the European venture capital funds (EuVECA) Regulation, the European social entrepreneurship funds (EuSEF) Regulation and the key information documents for packaged retail and insurance-based investment products (PRIIPs) Regulation: establishes uniform rules on the publication of national provisions concerning marketing requirements for collective investment undertakings and on marketing communications addressed to investors, as well as common principles concerning fees and charges levied on managers of collective investment undertakings in relation to their cross-border activities. It also provides for the establishment of a central database on the cross-border marketing of collective investment undertakings. The Regulation will enter into force on the twentieth day following its publication and will apply as from the same date.

Consultative documents

Financial Services and Markets Authority (FSMA)

New frequently asked questions (FAQs) about supplementary pensions regarding information for employers

On 13 June the FSMA published a new section of the FAQs on supplementary pensions ([NL/FR](#)). It provides employers with answers to practical questions and addresses, in detail, how a supplementary pension plan for employees works.

Newsletter on the new professional knowledge requirements applicable to the insurance sector under the Insurance Distribution Directive (IDD)

On 26 June the FSMA published a newsletter on the new professional knowledge requirements applicable to persons exercising certain functions in insurance intermediaries or insurance undertakings ([NL/FR](#)) explaining the main changes to the professional requirements introduced by the Act of 6 December 2018 transposing IDD into Belgian law ([NL/FR](#)).

European Securities and Markets Authority (ESMA)

Common supervisory action by national competent authorities (NCAs) on MiFID II appropriateness rules

On 3 June ESMA launched a [common supervisory action](#) which participant NCAs will carry out simultaneously, in the second half of 2019. The supervisory activity will focus on the application of the MiFID II requirements on the assessment of appropriateness, a topic on which ESMA has recently published a [supervisory briefing](#) that will serve as a starting point for the supervisory activity. NCAs that participate in the common supervisory action will assess the application of the appropriateness requirements by a sample of investment firms under their supervision.

Update of questions and answers (Q&As) on transparency issues under MiFID II and the Market in Financial Instruments Regulation (MiFIR)

On 3 June ESMA updated its [Q&As on MiFID II and MiFIR transparency topics](#). The updated Q&As introduce additional guidance on:

- General Q&A's on transparency topics;
- The double volume cap mechanism;
- The systematic internaliser regime.

Update of AIFMD and UCITS Q&As

On 4 June ESMA updated its [Q&As on the application of the AIFMD](#) and its [Q&As on the application of the UCITS Directive](#). The Q&As introduce additional guidance related to the depositary and safekeeping functions.

ESMA issues latest double volume cap (DVC)

On 7 June ESMA updated its [public register](#) with the latest set of DVC data under MiFID II.

Updated results of the annual transparency calculations for equity and equity-like instruments

On 21 June ESMA published [updated results of the annual transparency calculations for equity and equity-like instruments](#).

Financial Crime & Market Integrity

Normative documents

Financial Services and Markets Authority (FSMA)

Points for consideration by certain companies under FSMA supervision when completing the periodic anti-money laundering (AML) survey

On 4 June the FSMA published its communication FSMA_2019_11 of 28 May 2019 providing points of consideration when completing the periodic AML survey ([NL/FR](#)). The communication provides clarifications on several questions in the AML survey.

The 2019 periodic AML survey was due by 7 July 2019.

Guidelines on appropriate organisational framework for the combat against money laundering and terrorist financing (ML/FT)

On 27 June the FSMA published its Circular FSMA_2019_12 on requirements for an appropriate organizational framework on the prevention of ML/FT ([NL/FR](#)).

The Circular outlines the measures that need to be taken by the concerned entities in terms of policies, procedures and internal control measures to put in place, and in particular:

- ML/FT risk management policy;
- client acceptance policy;
- global risk assessment;
- client and transaction due diligence procedure;
- sanctions and embargos procedure;
- internal and external audit expectations;
- training and awareness; and
- group level organization expectations.

The Circular also clarifies the FSMA expectations regarding the application of the provisions regarding organization and internal control contained in the Act of 18 September 2017. It applies to all the entities in scope of the AML/CFT regulations who are under the supervision of the FSMA.

Consultative documents

Financial Action Task Force (FATF)

Updated guidance for a risk-based approach (RBA) to virtual assets and virtual assets providers and Interpretive Note on new technologies

On 21 June, the FATF published [updated guidance for a RBA to virtual assets and virtual asset service providers](#). This guidance follows revisions to the FATF Recommendations in response to the increasing use of virtual assets for money laundering and terrorist financing. The FATF strengthened its standards to clarify the application of anti-money laundering and counter-terrorist financing requirements on virtual assets and virtual asset service providers.

On the same day, the FATF issued an [Interpretive Note to Recommendation 15 on new technologies](#). This note further clarifies the FATF's previous amendments to the international Standards relating to virtual assets and describes how countries and obliged entities must comply with the relevant FATF Recommendations to prevent the misuse of virtual assets for money laundering and terrorist financing and the financing of proliferation. Further, the Note requires countries to ensure that service providers also assess and mitigate their ML/FT risks and implement the full range of AML/CFT preventive measures under the FATF Recommendations, including customer due diligence, record-keeping, suspicious transaction reporting, and screening all transactions for compliance with targeted financial sanctions, among other measures, just like other entities subject to AML/CFT regulation.

Outcomes of the June 2019 FATF Plenary

On 21 June, the FATF published the [outcomes of the Plenary meeting of June 2019](#), which took place from 16 to 21 June 2019 in Orlando.

During this Plenary, delegates discussed the following issues:

- major strategic initiatives: discussions on how to mitigate risk from virtual asset activities, on the launch of a strategic review to analyse the progress made on effective implementation of AML/CFT measures, on FATF's current action to combat TF and FATF's efforts to strengthen its standards on countering the financing of proliferation;
- mutual evaluations and follow-up reviews, and compliance: discussions of the mutual evaluations report on several countries, on the identification of jurisdictions with strategic AML/CFT deficiencies (see above);
- other initiatives such as the adoption of a report to the G20 Leaders and the approval of the three RBA guidances (see above)
- welcoming the Kingdom of Saudi Arabia as a new member to the FATF; and
- discussion of the FATF priorities under the Chinese Presidency.

Public statement on jurisdictions with money laundering (ML) and financing of terrorism (FT) strategic deficiencies

On 21 June, the FATF published an update of the [jurisdictions that have strategic deficiencies, thereby posing a risk to the international financial system](#). The FATF renewed its concerns on North Korea's failure to address the significant deficiencies in its anti-money laundering and combating the financing of terrorism (AML/CFT) regime and as a result called on its members and other jurisdictions to apply countermeasures to protect the international financial system from the ongoing and substantial ML and FT risks. Furthermore, while acknowledging the progress that Iran made including with the passage of the Anti-Money Laundering Act, the FATF expressed its disappointment that Iran's Action Plan remains outstanding and therefore called on its members and other jurisdictions to apply enhanced due diligence measures proportionate to the risks arising from the jurisdiction.

The FATF also updated the overview of [jurisdictions that have strategic AML/CFT deficiencies for which they have developed an action plan with the FATF](#), as part of the FATF ongoing review of compliance with AML/CFT standards: Bahamas, Botswana, Cambodia, Ethiopia, Ghana, Pakistan, Panama, Sri Lanka, Syria, Trinidad and Tobago, Tunisia and Yemen. The FATF welcomes Serbia's significant progress in improving its AML/CFT regime and, as a result, the country is no longer subject to FATF's monitoring process.

Guidance on a Risk Based Approach (RBA) for trust and company service providers, for the accounting profession and legal professionals

On 26 June the FATF released three guidance documents for a RBA:

- [guidance for a RBA for trust and company service providers](#);
- [guidance for a RBA for the accounting profession](#); and
- [guidance for a RBA for legal professionals](#).

These three guidances highlight the need for a sound assessment of the ML/TF risks that these entities face so that the policies, procedures and initial and ongoing client due diligence measures can mitigate these risks. This risk-based approach is central to the effective implementation of the FATF Recommendations to fight money laundering and terrorist financing.

These guidances replace the versions of 2008 and bring them in line with the current FATF Recommendations.

Wolfsberg

Publication of the Correspondent Banking Due Diligence Questionnaire (CBDDQ) capacity building materials

On 27 June the Wolfsberg group published a [series of materials supporting the implementation of the CBDDQ](#). These materials have been designed to aid 'capacity building' in the industry and support the objectives of the G20 and other supranational organisations towards a well supervised and more harmonized regulatory standard in the correspondent banking space.

The new materials include:

- a short [video](#) giving an overview of the CBDDQ and its development and purpose;
- a series of 12 videos covering each section of the CBDDQ individually and which are intended for high level training and awareness for banks, supervisors and other public sector bodies; and
- a [guidance](#) document providing a detailed review of the majority of the questions in the CBDDQ highlighting the risks and considerations that the questions are designed to identify as well as setting out clear expectations for the communication between Correspondent and Respondent.

These new tools should be used in combination with the CBDDQ itself as well as previously published Completion Guidance and FAQs document.

Governance & Risk Management

Normative documents

European Commission (EC)

Corrigendum to Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Solvency II

On 25 June a [Corrigendum to Commission Delegated Regulation \(EU\) 2019/981 of 8 March 2019 amending Delegated Regulation \(EU\) 2015/35 supplementing Solvency II](#) was published in the the Official Journal of the European Union.

The corrigendum corrects the probability of default assigned to some exposures.

Consultative documents

European Banking Authority (EBA)

Updated data on Deposit Guarantee Schemes (DGSs) across the EU

On 17 June the EBA published [the 2018 data relating to available financial means and covered deposits covered by the DGSs Directive \(DGSD\)](#).

Consultation on draft guidelines on loan origination and monitoring

On 19 June the EBA launched a [consultation on its draft guidelines on loan origination and monitoring](#). The draft guidelines specify the internal governance arrangements for granting and monitoring of credit facilities throughout their lifecycle. They introduce requirements for borrowers' creditworthiness assessment and bring together the EBA's prudential and consumer protection objectives.

The consultation will run until 30 September 2019.

International Association of Insurance Supervisors (IAIS)

Public consultation on revisions to the Insurance Core Principles (ICPs) and the Common Framework for the supervision of Internationally Active Insurance Groups (ComFrame)

On 14 June the IAIS issued a [public consultation on revisions to the ICPs and ComFrame related to the holistic framework for systemic risk in the insurance sector](#). As part of the development of the holistic framework for systemic risk in the insurance sector, which is scheduled for adoption in November 2019, the IAIS is seeking feedback on revisions to the following ICPs and the ComFrame.

The public consultation will run until 15 August 2019.

Capital & Liquidity

Normative documents

See **Highlight 1** on the EU's risk reduction measures (RRM) package

See **Highlight 2** on the publication of the countercyclical buffer

European Commission (EC)

Commission Implementing Regulation with regard to the format, structure, contents lists and annual publications date of the information to be disclosed by national competent authorities (NCAs)

On 5 June the [Commission Implementing Regulation \(EU\) 2019/912 of 28 May 2019 amending Implementing Regulation \(EU\) No 650/2014 laying down implementing technical standards \(ITS\) with regard to the format, structure, contents list and annual publication date of the information to be disclosed by NCAs in accordance with the Capital Requirements Directive \(CRD IV\)](#) was published in the Official Journal of the European Union. It is important that the information published by competent authorities is of high quality and easily comparable. Article 5 of the [Implementing Regulation \(EU\) No 650/2014](#) has therefore been amended to clarify that NCAs should only compile aggregate statistical data from institutions that fall under their supervision, and to clarify for which period data should be reported.

This Regulation entered into force and is applicable since 25 June 2019.

Consultative documents

European Supervisory Authorities (ESAs)

Second consultation on new amendments to the ITS on the mapping of credit assessments of external credit assessment institutions (ECAIs)

On 7 June the Joint Committee of the three ESAs – consisting of the European Securities and Markets Authority (ESMA), the European Banking Authority (EBA) and the European Insurance and Occupational Pensions Authority (EIOPA) – published a second [consultation paper on draft ITS amending Implementing Regulation \(EU\) 2016/1800 on the allocation of credit assessments of ECAIs to an objective scale of credit quality steps in accordance with Solvency II](#). A first consultation on the revised draft ITS has been performed on the EIOPA website at the end of 2018. The way offered to respondents to share their views on the subject was not fully functional. Moreover, some references to [Capital Requirements Regulation](#) and elements in the mapping table needed to be updated to take into account the latest assessments performed. A second consultation has therefore been deemed to be necessary.

This consultation ran until 10 July 2019.

European Banking Authority (EBA)

2020 EU-wide stress test methodology for discussion

On 25 June the EBA published its [2020 EU-wide stress test methodological note](#). This methodological note includes a draft methodology, templates and template guidance, which will be discussed with the industry. The 2020 exercise will assess EU banks' resilience to an adverse economic shock and inform the 2020 Supervisory Review and Evaluation Process (SREP). The methodology covers all risk areas and builds on the methodology prepared for the 2018 exercise, while improving some aspects based on the lessons learnt.

The final methodology will be published by the end of the year. The EU-wide stress test will be launched in January 2020 and the results published by the end of July.

Roadmap for the new market and counterparty credit risk approaches

On 27 June the EBA published its [roadmap for the new market and counterparty credit risk approaches](#). The roadmap provides a comprehensive overview of EBA deliverables in the area of market and counterparty credit risk and outlines EBA intentions and roadmap with the view of ensuring a smooth implementation of the new approaches in the EU. In particular, the roadmap reflects a prioritisation of the EBA work according to four phases, which is broadly in line with the deadlines included in the revised Capital Requirements Requirements (CRR 2), starting with the implementation of the essential parts of the framework.

The EBA also launched a consultation on eleven draft technical standards on the new IMA under the FRTB. These regulatory technical standards (RTS) have been included into 3 different consultation papers:

- [consultation paper on draft RTS on liquidity horizons for the IMA under points \(a\) to \(d\) of Article 523bd\(7\) of CRR 2](#);
- [consultation paper on draft RTS on Back-testing requirements under Article 325bf\(9\) and Profit and Loss attribution requirements under Article 325bg\(4\) of CRR 2](#); and
- [consultation paper on draft RTS on Criteria for assessing the modellability of risk factors under the IMA under Article 325 be\(3\) of CRR 2](#).

The draft standards were developed considering the proposals included in the EBA discussion paper on 'Implementation in the EU of the revised market risk and counterparty credit risk frameworks' published on 18 December 2017 and the industry feedback received as a result of the subsequent consultation. The entry into force of these technical standards will trigger the three-year-period after which institutions, which have been granted permission to use the new IMA for reporting purposes, will be required to report IMA figures. The consultation on these RTS runs until 4 October 2019.

In parallel with the consultation, the EBA is launching a [data collection exercise](#) (accompanied by [instructions](#) to fill in the template) on NMRF which is meant to support the EBA in fine-tuning and calibrating the methodology presented in the discussion paper with respect to the computation under the IMA of the capital charge corresponding to risk-factors that have been identified as non-modellable.

European Insurance and Occupational Pensions Authority (EIOPA)

Consultation on a draft opinion on sustainability within Solvency II

On 3 June EIOPA launched a [consultation on an opinion on sustainability within Solvency II](#). The draft opinion aims at integrating sustainability risks, in particular those related to climate change, in the investment and underwriting practices of (re)insurers. The opinion addresses the valuation of assets and liabilities, assesses current investment and underwriting practices and seeks to contribute to the integration of sustainability risks in market risks and natural catastrophe underwriting risks for the solvency capital requirements for standard formula and internal model users.

The consultation ran until 26 July 2019.

Disclosure & Reporting

Normative documents

No relevant texts.

Consultative documents

Basel Committee on Banking Supervision (BCBS)

Finalisation of revisions to leverage ratio treatment of client cleared derivatives and disclosure requirements to address window-dressing

On 26 June the BCBS published the [standards on leverage ratio treatment of client cleared derivatives](#). This publication sets out a targeted revision of the leverage ratio measurement of client cleared derivatives to align with the standardized approach to measuring counterparty credit risk exposures (SA-CCR). This treatment permits both cash and non-cash forms of segregated initial margin and cash and non-cash variation margin received from a client to offset the replacement cost and potential future exposure for client cleared derivatives only. This limited revision balances the robustness of the leverage ratio as a non-risk-based safeguard against unsustainable sources of leverage with the policy objective set by the G20 Leaders to promote central clearing of standardised derivative contracts.

On the same day, the BCBS also issued [revisions to leverage ratio disclosure requirements](#). These revisions set out additional requirements for banks to disclose their leverage ratios based on quarter-end and on daily average values of securities financing transactions.

Both revisions will be applicable to the version of the leverage ratio standard that will come into effect on 1 January 2022.

European Securities and Markets Authority (ESMA)

Integration of latest International Financial Reporting Standards (IFRS) in its European Single Electronic Format (ESEF) taxonomy

On 7 June ESMA published its [final report on the draft regulatory technical standards \(RTS\) amending Delegated Regulation \(EU\) 2018/815 on the updates of the taxonomy to be used for the ESEF](#). The ESEF taxonomy is based on the IFRS Taxonomy, and as the IFRS Standards and taxonomy evolve, the RTS on ESEF needs to evolve accordingly to provide preparers with the most relevant ESEF taxonomy for tagging IFRS consolidated financial statements. This will promote electronic reporting that is up-to-date with the applicable reporting standards, facilitating implementation of the tagging requirements and ensuring the highest comparability of filings for end-users at European and global level. The RTS on ESEF will be amended on a yearly basis to reflect updates to the IFRS Taxonomy published by the IFRS Foundation.

European Insurance and Occupational Pensions Authority (EIOPA)

Agreement with European Central Bank (ECB) and national authorities on common minimum standards for supervisory and statistical reporting by (re)insurance undertakings

On 13 June EIOPA and the ECB published [common minimum standards for data revisions as agreed between the ECB, EIOPA, national central banks \(NCBs\) and national competent authorities \(NCAs\)](#). By agreeing on common minimum standards, all authorities have aligned their expectations for the minimum acceptable level of data quality for the purposes of the different uses of data to be considered for the reporting reference dates after its date of publication. However, these common minimum standards should not prevent stricter practices from being applied at national level. The NCAs and NCBs have the responsibility and the power to request financial institutions to revise data when necessary.

The common minimum standards specify:

- the request for revisions – when NCAs or NCBs should request financial institutions to revise the data previously submitted;
- the synchronisation – the same data has to be available at all levels (i.e. financial institutions, NCAs/NCBs, EIOPA, ECB) at all times;
- the timeliness – the time when the revisions should be sent by NCAs and NCBs to EIOPA and the ECB respectively; and
- the need for historical revisions – when an issue is identified which would lead to significant revisions and which also affects back-data and how to provide the revisions.

Crisis Management

Normative documents

See **Highlight 1 on the EU's risk reduction measures (RRM) package**

No relevant texts.

Consultative documents

Financial Stability Board (FSB)

Consultation on resolution-related disclosures and on the operationalization of bank recovery and resolution

On 3 June the FSB published for public consultation two discussion papers that consider measures to improve the resolvability of global systemically important banks (G-SIBs):

- [public disclosures on resolution planning and resolvability](#): this discussion paper explores how general and firm-specific disclosures on resolution planning and resolvability could be further enhanced, focusing mainly on disclosures of resolution planning for G-SIBs. However, many of the disclosure approaches discussed are also relevant for domestic systemically important banks and other firms subject to a resolution planning requirement; and
- [discussion paper for public consultation on solvent wind-down of derivatives and trading portfolios](#): many G-SIBs have large derivative and trading portfolios. A disorderly close-out of these portfolios can potentially propagate substantial risks to financial stability. Given the global presence of some G-SIBs and the cross-border nature of many of these portfolios, such financial stability risks could spread across borders. This discussion paper sets out considerations related to the solvent wind-down of the derivative and trading book activities of a G-SIB that may be relevant for authorities and firms for both recovery and resolution planning.

The consultations run until 2 August 2019.

Market Stability & Financial Markets Infrastructure

Normative documents

European Commission (EC)

Guideline on TARGET2-Securities (T2S)

On 20 June the [Guideline \(EU\) 2019/1007 of the ECB of 7 June 2019 amending Guideline \(ECB\) 2012/13 on T2S](#) was published in the Official Journal of the European Union (OJ). This Guideline replaces all mentions of the “T2S Board” by “Market Infrastructure Board” in the ECBs T2S Guidelines.

It entered into force on 22 June 2019 and will apply as from 11 October 2019.

Commission Delegated Regulation on certain registration conditions to promote the use of small and medium-sized enterprise (SME) growth markets

On 21 June the [Commission Delegated Regulation \(EU\) 2019/1011 of 13 December 2018 amending Commission Delegated Regulation \(EU\) 2017/565 as regards certain registration conditions to promote the use of SME growth markets for the purposes of the Markets in Financial Instruments Directive \(MiFID II\)](#) was published in the OJ.

The objective of this Delegated Regulation is to further foster and promote the use of specialist markets that aim to cater for the needs of SME issuers so as to make it attractive for investors, and provide a lessening of administrative burdens and further incentives for SMEs to access capital markets through SME growth markets. The Delegated Regulation entered into force on 22 June 2019 and will apply from 11 October 2019.

Consultative documents

Financial Services and Markets Authority (FSMA)

Explanatory note on the European Market Infrastructure Regulation (EMIR) Refit

On 6 June the FSMA published an explanatory note regarding EMIR Refit, the revised EMIR regulation” ([NL/FR](#)). The note discusses the practical changes in light of the modifications to EMIR and focusses on the clearing obligation (art. 4 and 10 EMIR), and the reporting requirement (art. 9 EMIR). An overview of the key changes on EMIR due to EMIR Refit can be found in the Deloitte [Regulatory Radar – May 2019](#) issue.

National Bank of Belgium (NBB)

Circular on the revised Payment Services Directive (PSD2) regarding information file requirements

On 12 June the NBB published its Circular NBB_2019_12 on the requirements for the information file to be provided by credit institutions to the NBB regarding their compliance with the relevant provisions of the Act of 11 March 2018 ([NL/FR](#)). The Circular contains an annex clarifying the prudential expectations for the information file to be submitted. This annex is addressed to credit institutions and is to be used as a template to provide the required information regarding current and new payment services. Institutions should submit all relevant information to the NBB in order to allow the NBB to assess if the institution complies or will comply with the PSD2 requirements. The annex stresses that any expected difficulties and hurdles should be clearly highlighted.

The information should be submitted by 30 September 2019 for the first time and thereafter whenever a change in the programme of activities is decided upon.

European Banking Authority (EBA)

Opinion on strong customer authentication (SCA) under PSD2

On 21 June the EBA adopted an [opinion on the elements of SCA under PSD2](#). The opinion contains both general and specific comments addressed to competent authorities in relation to what may or may not constitute SCA. It focuses on the different elements (inherence, knowledge and possession) that could constitute compliant factors for SCA and in considers the existing authentication approaches in e-commerce.

European Securities Markets Authority (ESMA)

Supervisory briefing on pre-trade transparency requirements in commodity derivatives

On 3 June ESMA published a [supervisory briefing](#) ensuring compliance with the Markets in Financial Instruments Regulation (MiFIR) pre-trade transparency requirements in commodity derivatives. The supervisory briefing was developed after ESMA became aware that the provisions were not implemented in a consistent manner across

the European Union. It aims to increase supervisory convergence among national competent authorities, in their implementation of the requirements, and to provide a common timetable for the enforcement of the commodity derivatives pre-trade transparency regime, with the objective of ensuring a level playing field across EU trading venues.

Update on questions and answers (Q&As) regarding the European Market Infrastructure Regulation (EMIR)

On 14 June ESMA published its updated Q&As on implementation of EMIR on over-the-counter (OTC) derivatives, central counterparties (CCPs) and trade repositories (TRs). The Q&As provide further clarity regarding the implementation of EMIR Refit with respect to:

- the calculation framework towards the clearing thresholds; and
- the notifications to be made by market participants to their competent authorities to apply an intragroup exemption from reporting.

Update of Q&As on the implementation of the Central Securities Depository Regulation (CSDR)

On 18 June ESMA updated its [Q&As on the implementation of CSDR](#).

The updated Q&As provide answers to questions regarding practical issues on the implementation of the new CSDR regime. The latest batch of CSDR Q&As clarify aspects regarding the process applicable to the provision of notary or central maintenance services in other Member States, passporting procedure.

Consultation on short-termism in financial markets

On 24 June ESMA published a [questionnaire](#) which aims at gathering evidence on potential short-term pressures on corporations stemming from the financial sector. Responses will contribute to ESMA's analysis of potential sources of undue short-termism on corporations with an aim to identifying areas in which existing rules may contribute to mitigating undue short-termism and areas where the rules may exacerbate short-term pressures. By December 2019, ESMA will deliver a report to the EC based on its findings, in line with the EC's request to each of the three European Supervisory Authorities (ESAs). The report will present evidence and possibly advice on potential undue short-termism. The EC will consider ways to follow up on the report's findings, which may include policy actions. The consultation runs until 29 July 2019.

International Organization of Securities Commissions (IOSCO)

Report on market fragmentation and cross-border cooperation

On 4 June IOSCO published a [report on market fragmentation and cross-border Regulation](#). The report examines instances of regulatory-driven fragmentation in wholesale securities and derivatives markets and considers what actions regulators can take to minimize its adverse effects. It proposes potential measures that IOSCO and relevant national authorities could explore to mitigate the risk, and potential adverse effects, of fragmentation on global securities markets. The IOSCO Board will decide on its approach to these next steps in the second half of this year.

Discussion paper on CCP default management auctions

On 5 June the Committee on Payments and Market Infrastructure (CPMI) and IOSCO published for public comment a [discussion paper on CCP default management auctions](#). This report is accompanied by a [cover note](#) listing some of the specific issues on which the CPMI and IOSCO are soliciting input. The discussion paper focuses on five key aspects of a CCP's default management auctions:

- governance;
- considerations for a successful default management auction;
- operational considerations;
- client participation; and
- default of a common participant across multiple CCPs.

The consultation runs until 9 August 2019.

Regulatory Perimeter

Normative documents

Belgian Official Journal

Publication of the NBB Regulation regarding the accreditation of auditors and audit companies

On 6 June the [Royal Decree of 2 May 2019 modifying the NBB Regulation of 21 December 2012 regarding the accreditation of auditors and audit companies](#) was published in the Belgian Official Journal. The rules now incorporate provisions regarding the auditors of payment institutions and electronic money institutions, and contain updated references and minor changes. They entered into force on June 6th.

Consultative documents

European Fund and Asset Manager association (EFAMA)

Annual review 2018-2019

On 21 June EFAMA published its [annual review 2018-2019](#). The report is structured around the work of the associations' various committees, platforms and Brexit task force, and provides a review of EFAMAs activities over the last year. EFAMA notably focused its efforts on the impact of PRIIPS, EMIR, liquidity stress testing for investment funds, the Regulation on the Pan-European Pension product and other financial regulations impacting the activities of its members.

Technology & Innovation

Normative documents

No relevant texts.

Consultative documents

Financial Supervisory Board (FSB)

FSB report considers implications of decentralised financial technologies

On 6 June the FSB published a [report on decentralized financial technologies](#). It considers the financial stability, regulatory and governance implications of the use of decentralised financial technologies such as those involving distributed ledgers and online peer-to-peer, or user-matching, platforms. The report notes several concerns, and concludes that regulators may wish to engage in further dialogue with a wider group of stakeholders, including those in the technology sector that have had limited interaction with financial regulators to date.

European Savings and Retail Banking Group (ESBG)

ESBG position paper on initial coin offerings (ICOs) & crypto-assets

On 27 June the ESBG released a [position paper on the on the regulatory treatment of ICOs and crypto-assets](#). The ESBG notes that regulatory uncertainty on ICOs leaves room for a growing part of the economy that remains in regulatory limbo, helping new firms flourish at the expense of heavily regulated competitors and investors' protection. The ESBG notes that cryptocurrencies and stablecoins lack a clear regulatory approach from EU authorities, and makes three concrete recommendations:

- market venues for virtual currencies and tokens must be organized;
- crypto assets should be properly legally defined and classified among existing or new categories; and
- adapt the regulatory framework for ICOs.

Supervision

Normative documents

No relevant texts.

Consultative documents

Financial Services and Markets Authority (FSMA)

Annual report 2018

On 21 June the FSMA published its 2018 annual report ([NL/FR](#)). At its presentation of the report, the FSMA commented, amongst other things, on the inspections it conducted in the insurance sector, the preparations for a possible Brexit, its involvement in certain aspects of the fight against money laundering, the promotion of sustainable investment, and work on the creation of the new FSMA financial education centre.

National Bank of Belgium (NBB)

Financial stability report 2019

On 3 June the NBB published its [financial stability report for the year 2019](#). The publication consists of three main sections:

- a report on the NBB's arising the main determinants of stability in Belgium's financial system; and
- a series of thematic articles.

The NBB notes that the Belgian financial sector continued to show good overall performances in 2019, but that the evolutions observed in the credit market (in particular mortgages), where NBB calls for better and safer practices as well as an economically healthy pricing, are becoming an ever-growing concern. The NBB calls for a decrease in the number of risky mortgage credits.

Next to its Financial Stability Report, the NBB also published a macro prudential report highlighting the main risks, focus points, and prudential measures adopted ([NL/FR](#)).

Financial market infrastructure and payment services report 2019

On 14 June the NBB published its [2019 financial market infrastructures and payment services report](#). The report states that 2018 was the tipping point for the retail payments area in Belgium and in Europe with the implementation of the revised Payment Services Directive (PSD 2). The changes it is inducing in business models, as well as the emergence of instant payments, will further shape the sector in 2019 and the years ahead. Another major event impacting every component of the financial markets, not least in Belgium, is Brexit. Against this background of structural and strategic challenges, cyber resilience continues to be top of the agenda for risk managers and regulators.

European Securities Markets Authority (ESMA)

Annual report 2018

On 17 June ESMA published its [2018 annual report](#). The report includes ESMA's key achievements and highlights of its work in 2018 and focusses on:

- promoting supervisory convergence;
- assessing risks to investors, markets and financial stability;
- completing a Single Rulebook for EU financial markets; and
- directly supervising specific financial entities.

European Insurance and Occupational Pensions Authority (EIOPA)

Annual report 2018

On 14 June EIOPA published its [2018 annual report](#). Through its 2018/19 supervisory convergence plan, EIOPA identified priorities and implemented actions to foster a common approach to supervision and address risks to the internal market. In the field of oversight and supervisory convergence, EIOPA's work included peer reviews, participation in colleges of supervisors to improve supervision of cross-border groups and training activities for national supervisors. Looking ahead, EIOPA will build on its work as a core pillar of the European supervisory framework. In 2019, EIOPA remains committed to fulfilling its mandate to strengthen supervisory convergence in the insurance and pension sectors across Europe, for the benefit of the economy, businesses and consumers.

Bank for International Settlements (BIS)

Annual report 2018/19

On 28 June the BIS published its [annual report 2018/19](#). The biggest accomplishment of the BIS in 2018/19 was the launch of the new strategy to shape the Bank for the future. The strategy “innovation BIS 2025” focuses on three areas of activity:

- economic analysis and research;
- global forum for cooperation among central banks and other financial authorities; and
- banking business, calling for investment in next generation technologies

European Investment Bank (EIB)

Complaints mechanism activity report 2018

On 5 June the EIB published its [2018 complaints mechanism \(CM\) activity report](#). It includes the EIB Group related cases dealt with by the European ombudsman who also releases its own annual report, covering all EU institutions and bodies. The 2018 EIB-CM activity report outlines the activities performed and includes:

- examples of cases closed and ongoing at the end of the year;
- updates on the revised CM Policy and special remark on the 10 years anniversary of the creation of the CM
- dialogue with civil society organisations;
- inter-institutional cooperation with accountability mechanisms of other International Financial Institutions; and
- statistics of handled complaints, including the complaints lodged with the European Ombudsman against the EIB.

Activity report 2018

On 11 June the EIB published its [2018 activity report](#). 2018, marked the 60th year of operations. The EIB encountered in 2018 an environment in need of strong European support and beacons of stability. European values and multilateralism came under fire from parochial nationalism. At the same time, the Bank had to respond to changing economic circumstances, the ongoing decline in European competitiveness and a shortfall in innovation finance.

Report on advisory services 2018

On 11 June the EIB published its [2018 annual report on advisory services](#). This report explains how the technical, financial and strategic advice provided by EIB staff and external consultants aids the preparation and implementation of public and private investment projects. The EIB's advisory services have a broad range; from helping Romania to modernize its health care to bringing clean drinking water to communities in Jordan, EIB's advisory services gives public officials the tools they need to tackle their country's challenges. In the private sector, the EIB worked with national promotional banks and other financial intermediaries to reach small businesses and to give them the guidance they need to grow.

Management disclosure report 2018

On 17 June the EIB published its [2018 risk management disclosure report](#). The report is designed to provide further information about the approaches the EIB Group takes to managing risk and assessing capital adequacy. Following topics are discussed in the report:

- risk governance and management;
- capital adequacy and risk-weighted assets break-down;
- exposed risks, and principles to manage these;
- credit risk arising from derivatives and from securitisations;
- quantitative and qualitative information on market risk;
- liquidity risk;
- internal models, reporting and quantitative disclosures on operational risk at the Group; and
- remuneration disclosures.

Operations evaluation activity report 2016-2018 and work programme 2019-2021

On 13 June the EIB published its [activity report 2016-2018 and work programme 2019-2021](#). From 2016 to 2018 the EIB completed five large-scale evaluations concerning the EIB activities. Two of these evaluations concerned the European fund for strategic investments. The other evaluations covered the EIB's intermediated lending through the investment facility in the African, Caribbean and Pacific region, the EIB's securitisation activity and the EIB's Structural Programme Loans.

EIB's operations evaluation division shall focus on following topics in 2019-2021:

- cohesion lending;
- energy lending criteria;
- gender strategy; and
- support to small businesses.

International Association of Insurance Supervisors (IAIS)

Approval of IAIS new strategic direction in its 2020-2024 strategic plan and financial outlook

On 14 June the IAIS published its approved [2020-2024 strategic plan](#). The IAIS maintains its core functions of developing global standards, supporting implementation and contributing to global financial stability. There will be a change in emphasis toward applying these functions in ways that help the members proactively respond to a rapidly changing global environment driven by technological innovations, shifts in consumer behavior, and societal challenges.

European Association of Co-operative Banks (EACB)

Key priorities in financial markets (2019-2024)

On 7 June the EACB published its [key priorities](#) for the work plan of the new Commission during the next five years of its mandate (2019-2024), with respect to the area of financial markets. The EACB will focus on three topics:

- reduction of complexity and increase in efficiency in securities markets legislation;
- ensure regulatory developments will not affect financial stability; and
- take into account the impact of the various sustainable finance legislative work streams on banks.



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