

Banking prudential regulatory bulletin

PwC Ireland

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Executive summary

Welcome to the latest edition of our Banking prudential regulatory bulletin which covers key regulatory updates within the banking industry for Q4 2022. A number of significant developments took place in the final quarter of last year, including the following:

- In October, the EBA published its priorities for the 2023 European Supervisory Examination Programme (ESEP). This sets out key topics for supervisory attention for 2023 based on the EBA's EU-wide risk analysis, the EBA's relevant policy work and the experience of Competent Authorities. The EBA intends to track how these key topics are incorporated into the priorities of the authorities and how they are used in supervisory operations of throughout the year.
- In November the EBA published the final methodology, draft templates and template guidance for the 2023 EU-wide stress test along with key milestones for the exercise. The exercise commenced in January 2023 aims to publish results by the end of July 2023.

- In December, the EBA published a closure report on the COVID-19 measures, providing a look back on the wide range of policy measures taken on the back of the pandemic, their state of play and the path out of policy support. The report highlights the resiliency of the EU banking system and the adequacy of capital ratios, improved asset quality and substantial liquidity.

In the area of Environmental, Social, and Governance (ESG) there were a number of key updates in Q4, including the publication in December of the EBAs roadmap on sustainable finance.

We hope you enjoy reading this quarters edition.

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Prudential regulatory developments

Capital and liquidity



The EBA sets examination programme priorities for prudential supervisors for 2023

On 27 October, EBA issued the European Supervisory Examination Programme (ESEP) for 2023, which identifies key topics for supervisory attention throughout the European Union. The ESEP is a component of an annual cycle and serves to improve supervisory convergence in the EU by giving supervisors common focus points and directions, which aids in the development of their prudential supervisory goals and individual practices.

The main topics in the ESEP included:

- Macroeconomic and geopolitical risks;
- Operational and financial resilience;
- Transition risks towards sustainability and digitalisation;
- Money-laundering and terrorist financing (ML/TF) risks in the supervisory review and evaluation process (SREP) and internal controls/governance.

The EBA will as such track how the ESEP's major subjects are incorporated into the priorities of the competent authorities for 2023 and how they are used in those authorities' supervisory operations throughout the year.



EBA publishes assessment on the application of the supporting factor to infrastructure lending

On 3 November, the EBA published a Report, which analyses some qualitative as well as quantitative aspects of the lending trends and riskiness of infrastructure loans which have benefitted from a capital reduction due to the introduction of the so-called infrastructure supporting factor (ISF) under the Capital Requirements Regulation (CRR).

While data on infrastructure lending is scarce overall, the EBA analysis relied on information received from a sample of banks that participated in a survey launched in April 2022. According to the EBA, the data collected was not sufficient to conclude on the impact of ISF on lending or the consistency of the riskiness of the affected loans with the own funds requirements. At the same time, from a broader prudential perspective, and in line with previous EBA recommendations, the continued application of the ISF could be questioned.



EBA publishes methodology and draft templates for the 2023 EU-wide stress test

On 4 November, the EBA published the final methodology, draft templates and template guidance for the 2023 EU-wide stress test along with the milestone dates for the exercise. The methodology and templates cover all relevant risk areas and have considered the feedback received from industry. The stress test exercise was planned to be launched in January 2023 with the publication of the macroeconomic scenarios. The results will be published by the end of July 2023.



→ ESAs publish joint advice to the EU Commission on the review of the securitisation prudential framework

On 12 December, the three ESAs published a joint advice in response to the European Commission's October 2021 call for advice on the review of the securitisation prudential framework. The ESAs welcome the current review as an opportunity to assess the performance of the current framework and support the objective of reviving the EU securitisation market. The targeted proposals in the advice aim at improving the consistency and risk sensitivity of the capital framework for banks whereas the liquidity framework for banks and the prudential framework for (re)insurers should be maintained as it currently stands. However, the ESAs believe that re-calibrating the securitisation prudential framework would not be a solution that in itself would ensure the revival of the securitisation market.

→ EBA standardises information requirements to support sales and transfers of non-performing loans

On 16 December, EBA published its final draft Implementing Technical Standards (ITS) specifying the requirements for the information that credit institutions selling Non-Performing Loans ("NPL") shall provide to prospective buyers. The objective of the draft ITS is to provide a common data standard for the NPL sales or transfers across the EU enabling cross-country comparison and thus reducing information asymmetries between the sellers and buyers of NPL, thus improving the functioning of NPL secondary markets.

→ EBA updates list of CET1 instruments

On 19 December, EBA published an updated list of capital instruments that Competent Authorities across the European Union (EU), and for the first time across the European Economic Area (EEA), have classified as Common Equity Tier 1 (CET1). Since the publication of the previous update in December 2021, the CET1 instruments compliant with the Capital Requirements Regulation (CRR) and issued by institutions from Iceland, Liechtenstein and Norway have been added to the list. The list will be maintained and updated on a regular basis.

→ EBA updates list of diversified indices

On 21 December, EBA updated the list of diversified indices, originally published in 2013 and previously updated in 2019. The list is part of the implementing technical standards (ITS) drafted to calculate the capital requirements for position risk in equities according to the standardised rules. The list has been updated according to the procedure and methodology laid down in the ITS and submitted to the European Commission for endorsement.

→ EBA publishes final technical standards on the identification of a group of connected clients

On 21 December, EBA published its final draft Regulatory Technical Standards (RTS) on the identification of a group of connected clients (GCC) under the Capital Requirements Regulation (CRR). These draft RTS, in conjunction with the [EBA Guidelines on connected clients](#), provide the complete framework for the identification of two or more natural or legal persons who are so closely linked by idiosyncratic risk factors, that it is prudent to treat as a single risk.



Recovery and resolution

→ The EBA sets examination programme priorities for resolution authorities for 2023

On 27 October, the EBA published the European Resolution Examination Programme (EREP) for 2023, which identifies key topics for resolution attention across the European Union. The EREP is aimed at shaping resolution authorities' work priorities and respective practices.

→ EBA consults on Guidelines to institutions and resolution authorities on resolvability testing

On 11 November, the EBA launched a public consultation on its draft Guidelines addressed to institutions and resolution authorities on resolvability testing. The Guidelines aim to set-out a framework to ensure that resolvability capabilities developed to comply with the resolvability and transferability Guidelines are fit for purpose and effectively maintained.

The consultation closed on 15 February 2023.

→ EBA consults on Guidelines on the overall recovery capacity in recovery planning

On 14 December, the EBA published a consultation paper on its draft Guidelines on the overall recovery capacity (ORC) in recovery planning. The Guidelines aim to set up a consistent framework for the determination of the ORC by institutions in their recovery plans and the respective assessment by competent authorities.

The consultation runs until 14 March 2023.

Supervisory reporting

→ EBA launches consultation to amend the data collection for the benchmarking exercise in 2024

On 6 December, the EBA published a consultation paper to amend the Implementing Regulation on the benchmarking of credit risk, market risk and IFRS9 models for the 2024 exercise. The most significant change is the roll out of the data collection for the benchmarking of accounting metrics (IFRS9) to high default portfolios (HDP). For market risk it is proposed to add new templates for the collection of additional information, notably the Default Risk Charge (DRC) and the Residual Risk Add-On (RRAO). For credit risk, only minor changes are proposed.

The deadline for the submission of comments was 28 February 2023.

A public hearing on this consultation was scheduled to take place on the 9 February 2023 from 14:00 to 16:00 CET. Deadline for registration dated 6 February at 16:00 CET.

→ EBA issues revised list of ITS validation rules

On 12 December, the EBA issued a revised list of validation rules for its reporting standards (Implementing Technical Standards and Guidelines), highlighting those which have been deactivated either for incorrectness or for triggering IT problems. Competent Authorities throughout the EU are informed that data submitted in accordance with these reporting standards should not be formally validated against the set of deactivated rules.



ESG

EBA issues an Opinion in response to the European Commission's proposed amendments to the EBA final draft technical standards on Pillar 3 disclosures on ESG risks

On 17 October, EBA published an opinion on the changes to the EBA's final draft Implementing Technical Standards (ITS) on prudential disclosures of environmental, social, and governance (ESG) information that the European Commission has suggested. In the Opinion, the EBA argues that institutions should make every effort to collect and publish the extremely significant information represented in the Banking Book Taxonomy Alignment Ratio (BTAR), even though it accepts the two fundamental adjustments proposed by the Commission to improve proportionality.

EBA reasserts its commitment to contribute to a more resilient and sustainable financial system

On 9 November, the EBA published its environmental statement in the context of the 2022 United Nations Climate Change Conference (COP27), highlighting its work aimed at increasing sustainability in the banking sector by enhancing market transparency and discipline and by translating sustainability considerations into risk management practices and supervision. The EBA also presented its priorities and activities to ensure a robust management of ESG (environmental, social and governance) risks and adequate supervision.

ESAs launch joint Call for Evidence on greenwashing

On 15 November, the three ESAs published a Call for Evidence on greenwashing to gather input from stakeholders on how to understand the key features, drivers and risks associated with greenwashing and to collect examples of potential greenwashing practices.

Respondents are invited to submit their responses by 10 January 2023.

The EBA publishes its roadmap on sustainable finance

On 13 December, the EBA published its roadmap outlining the objectives and timeline for delivering mandates and tasks in the area of sustainable finance and environmental, social and governance (ESG) risks. The roadmap explains the EBA's sequenced and comprehensive approach over the next three years to integrate ESG risks considerations in the banking framework and support the EU's efforts to achieve the transition to a more sustainable economy.

Investment firms

→ EBA publishes Report on the integration of ESG risks in the supervision of investment firms

On 24 October, EBA published a Report on how to incorporate ESG risks in the supervision of investment firms. The Report also provides an initial assessment of how ESG factors and ESG risks could be included in the supervisory assessment of investment firms.

The Report, which was directed at the National Competent Authorities (NCA), addresses the key supervisory review and evaluation process (SREP) components and lays the groundwork for including ESG risks-related concerns in the supervision of investment enterprises. Analysis of the business model, evaluation of internal governance and risk management, and evaluation of risks.

According to EBA, the integration of ESG factors in the supervisory process could take a gradual approach due to limitations related to data and methodologies, prioritizing the recognition of ESG risks in investment firms' strategies, governance arrangements, and internal processes, and later incorporating them in the assessments of risks to capital and liquidity.

→ EBA publishes final technical standards on the measurement of liquidity risks for investment firms

On 14 November, EBA published its final Regulatory Technical Standards (RTS) on specific liquidity measurement for investment firms under the Investment Firms Directive (IFD). These RTS will ensure that all competent authorities follow the same harmonised approach when adopting the decision to impose further liquidity requirements to an investment firm.



Other updates



EBA Report finds Banks exposed to downside risks as residential real estate markets get overheated

On 10 October, the EBA published a thematic note on EU banks' residential real estate exposures. The publication indicated that house prices across the EU have increased substantially during 2021 which has raised concerns about overheating and the potential for significant price declines in residential real estate markets.

The thematic note showed that higher interest rates driven by increased inflation combined with the prospect of slower economic growth will likely put financial pressure on lower income and over-indebted households.

According to EBA, these developments clearly point to higher risks in banks' mortgage portfolios and thus Banks should follow prudent loan origination policies and enhance their monitoring of mortgage loan portfolios to identify promptly pockets of risks.



EBA publishes final standards and guidelines on interest rate risk arising from non-trading book activities

On 20 October, EBA published a final set of Guidelines and two final draft Regulatory Technical Standards (RTS) specifying technical aspects of the revised framework capturing interest rate risks for banking book (IRRBB) positions. These regulatory products complete the onboarding into EU law of the Basel standards on IRRBB and are of crucial importance given the current interest rate environment. According to the report, the EBA will also closely monitor their implementation and more generally the impact of the evolving interest rates on the management of IRRBB by EU institutions and on other related prudential aspects.



The EBA clarifies the operationalisation of intermediate EU parent undertakings of third country groups

On 7 November, the EBA published an Opinion to clarify the framework applicable to the set-up and operationalisation of intermediate EU parent undertakings (IPUs) by third country groups (TCGs) operating in the EU. This Opinion, which was addressed to the competent and resolution authorities, aimed to ensure a harmonised and effective application throughout the Union of the requirement introduced by Article 21b of the revised Capital Requirements Directive (CRD5).

The Opinion offered specific advice for situations when the TCG seeks to set up two IPUs rather than one because segregation of duties requirements imposed by mandatory third country legislation apply or because a single IPU would make resolution less effective. The Opinion specifies the procedures, information needs, and evaluation standards from a supervisory and/or resolution perspective for the competent authority approval of the two IPUs structure.



EBA publishes guidelines on remote customer onboarding

On 22 November, the EBA published its final Guidelines on the use of remote customer onboarding solutions. These Guidelines set out the steps credit and financial institutions should take to ensure safe and effective remote customer onboarding practices in line with applicable anti-money laundering and countering the financing of terrorism (AML/CFT) legislation and the EU's data protection framework. The Guidelines apply to all credit and financial institutions that are within the scope of the Anti-money Laundering Directive (AMLD).



EBA consults on new Guidelines to tackle de-risking

On 6 December, the EBA launched a public consultation on new Guidelines on the effective management of money laundering and terrorist financing (ML/TF) risks when providing access to financial services.

Through these Guidelines, the EBA aims to ensure that customers, especially the most vulnerable ones, are not denied access to financial services without valid reason.

The consultation run until 6 February 2023.



EBA risk assessment warns about the impact of a deteriorating macroeconomic environment

On 9 December, the EBA published its annual risk assessment of the European banking system. The report is accompanied by the publication of the 2022 EU-wide transparency exercise, which provides detailed information, in a comparable and accessible format, for 122 banks across 26 EEA / EU countries. Banks should prepare for a likely deterioration in asset quality and strengthen their screening systems and controls to ensure a strict compliance with sanctions to prevent legal and reputational risks.



EBA publishes its first thematic review on the transparency and level of fees and charges for retail banking products in the EU, observing that significant detriment still arises for consumers

On 14 December, the EBA published a thematic review on the transparency and level of fees and charges levied by financial institutions (FIs) on the retail banking products in the EU. Overall, the review finds that fees and charges vary greatly in terms of level and type not only across the European Union (EU) market, but also across FIs within the same jurisdiction. Furthermore, the variety of types for fees and charges cause different levels of detriment to consumers, and, with the exception of payment accounts, fees and charges are difficult to compare between providers.



EBA publishes its closure report of COVID-19 measures and repeals its Guidelines on COVID-19 reporting and disclosure

On 16 December, the EBA published its closure report of COVID-19 measures, which provides an overview of the wide range of policy measures taken on the back of the pandemic, their state of play and the path out of policy support. Although the EU banking system proved overall resilient, the ample support provided does not give room to complacency, and the framework is to be further strengthened with a loyal and prompt implementation of Basel III. The publication is accompanied by an update to the list of public guarantee schemes (PGS) and general payment moratoria schemes issued in response to the pandemic. Finally, the EBA Guidelines on COVID-19 reporting and disclosure have been repealed in response to the decreasing relevance of the related public support measures, and the overall EBA proportionate approach to reporting.



ESAs publish list of financial conglomerates for 2022

On 22 December, the Joint Committee of the ESAs published the list of identified financial conglomerates for 2022. The 2022 list includes 63 financial conglomerates with the head of group located in the European Union or European Economic Area.



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