



Banking prudential regulatory bulletin

PwC Ireland

Q2 2023

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Welcome to second edition of the Banking prudential regulatory bulletin which covers key updates within the industry. A number of significant developments occurred in second quarter of the 2023, including the following:

- The European Banking Authority (“EBA”) published its annual report that highlights activities and achievements in 2022. The 2022 Annual Report presents the strategic priorities for 2023, which include finalising the Basel III implementation in the EU, performing an enhanced EU-wide stress test, putting data at the service of stakeholders, working on digital finance and delivering on MiCAR and DORA mandates.
- The three European Supervisory Authorities (“ESAs”) launched a public consultation on the first batch of policy products under the Digital Operational Resilience Act (DORA). The Digital Operational Resilience Act (DORA), which entered into force on 16 January 2023 and will apply from 17 January 2025, aims to enhance the digital operational resilience of entities across the EU financial sector and to further harmonise key digital operational resilience requirements for all EU financial entities.

- The ESAs published a factsheet to help consumers understand how recent increase in inflation and interest rates affects their disposable income.

- EBA published a report on the monitoring of liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) implementation in EU. In the Report, the EBA analysed the potential liquidity and funding needs that EU banks might need to cover to maintain regulatory and prudent LCR and NSFR levels. The Report provides guidance to both banks and supervisors on how they should monitor, on an ongoing basis, the real capacity of markets and the economic conditions for potential funding sources.

- And lastly on sustainable finance, the ESAs are proposing changes to the disclosure framework to address issues that have emerged since the introduction of SFDR.

We hope you enjoy reading this quarters edition.

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Capital and liquidity



Robust EU/EEA banking sector shows strong capital and liquidity ratios

The EBA published its quarterly Risk Dashboard (RDB) together with the first edition of the RDB on minimum requirement for own funds and eligible liabilities (MREL). Volatility in EU/EEA banks' equity and debt has been strongly affected by Silicon Valley Bank (SVB) and Credit Suisse related events, although direct exposures of EU/EEA banks towards these banks were limited according to indications from supervisory reporting as of Q4 2022. Banks' capital and liquidity ratios remain strong and profitability continues to increase.



EBA reports on the LCR and NSFR implementation in the EU in the context of the new economic environment and TLTRO repayment

The EBA published today its third Report on the monitoring of liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) implementation in the EU. This Report assesses the potential impact on LCR and NSFR levels of the upcoming central bank funding repayment (mainly repayments of the targeted longer-term refinancing operations - TLTRO) as well as of a potential scenario of higher liquidity risk, particularly affecting government bonds, derivatives and repo markets, in the context of a higher interest rate environment, inflation and recession risks.

Recovery and resolution



EBA published its final resolvability testing Guidelines

In June, the EBA published its 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.

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Supervisory reporting

EBA updates list of institutions involved in the 2023 supervisory benchmarking exercise

The EBA published an updated list of institutions, which have a reporting obligation for the purpose of the 2023 EU supervisory benchmarking exercise. The EBA will be conducting the 2023 benchmarking exercise on a sample of 117 institutions from 16 countries across the EU and the European Economic Area. The EBA runs this exercise leveraging on established data collection procedures and formats of regular supervisory reporting and assists Competent Authorities in assessing the quality of internal approaches used to calculate risk weighted exposure amounts.

EBA consults on approach to the resubmission of historical data under the EBA reporting framework

The EBA launched a public consultation on the draft Guidelines on resubmission of historical data under the EBA reporting framework. The objective of the draft guidelines is to provide a common approach to the resubmission by the financial institutions of historical data to the competent and resolution authorities in case there are errors, inaccuracies or other changes in the data reported in accordance with the supervisory and resolution reporting framework developed by the EBA.

The consultation ended on 31 July 2023.

The EBA publishes the final amending ITS on supervisory disclosure under CRD

In June, the EBA published its final draft amending Implementing Technical Standards (ITS) on supervisory disclosures, which specify the format, structure, contents list and annual publication date of the supervisory information to be disclosed by competent authorities. The amended draft ITS incorporate the changes to the EU legal framework, in particular the changes related to supervisory reporting and investment firms.

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EBA consults on new RTS and ITS on supervisory colleges

The EBA launched a public consultation on draft Regulatory Technical Standards (RTS) and draft Implementing Technical Standards (ITS) on the functioning of supervisory colleges under the Capital Requirements Directive (CRD). These new technical standards will ensure that the Level 2 framework for the functioning of supervisory colleges is better aligned with the Level 1 regulation and able to promote a more efficient and effective supervision of cross-border banking groups.

The consultation runs until 30 August 2023.

EBA makes supervisory reporting requirements easier to navigate

As part of its drive for more proportionate regulatory reporting framework, The EBA in May issued the first version of an interactive signposting tool, that aims at supporting institutions in identifying relevant modules and templates for their reporting requirements.

EBA issues revised list of ITS validation rules

The EBA today issued a revised list of validation rules in its ITS on supervisory reporting, highlighting those, which have been deactivated either for incorrectness or for triggering IT problems. Competent Authorities throughout the EU are informed that data submitted in accordance with these ITS should not be formally validated against the set of deactivated rules.

EBA releases the technical package for phase 1 of its 3.3 reporting framework

The European Banking Authority (EBA) published today the technical package for phase 1 of version 3.3 of its reporting framework. The technical package provides standard specifications and includes the validation rules, the Data Point Model (DPM) and the XBRL taxonomies for this phase of version 3.3.

EBA and EIOPA publish Data Point Modelling Standard 2.0 to foster collaboration and harmonisation in the field of supervisory reporting

In June, the Data Point Modelling (DPM) Standard 2.0 issued an enhances the methodology that is at the core of the EBA and EIOPA's reporting process, creating a fully consistent approach for modelling reporting requirements. The new DPM supports the whole reporting lifecycle, from data definition to data exploration, and aims to reap the benefits of stronger collaboration and higher harmonisation while also improving the digital processing of regulatory data required by the authorities.

EBA publishes draft version of its revised taxonomy architecture

The EBA and the EIOPA have been working jointly with Eurofiling to produce a revised version of the taxonomy architecture in order to implement the improvements introduced by data point model (DPM) Refit to data point modelling, such as the historisation of certain concepts. The revisions also simplify the structure by removing unnecessary artefacts, such as normative codes for taxonomy frameworks.

ESG

ESAs propose amendments to extend and simplify sustainability disclosures

The three ESAs have published a Consultation Paper with amendments to the Delegated Regulation of the Sustainable Finance Disclosure Regulation (SFDR).

ESAs propose ESG disclosures for STS securitisations

The three ESAs jointly submitted to the European Commission Draft RTS on the ESG impact disclosure for Simple, Transparent and Standardised (STS) securitisations under the Securitisation Regulation (SECR). These final draft RTS aim to help market participants make informed decisions about the sustainability impact of their investments

ESAs present common understanding of greenwashing and warn on related risks

In June, the three ESA published their progress Reports on greenwashing in the financial sectors. In these Reports, the ESAs put forward a common high-level understanding of greenwashing applicable to market participants across their respective remits – financial markets, banking, and insurance and pensions.

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EBA publishes draft technical standards on the prudential consolidation of an investment firm group and completes its Roadmap on investment firms

The EBA published its draft RTS on the scope and methods of consolidation of an investment firm group under the Investment Firms Regulation (IFR). These RTS detail the scope and methods for the prudential consolidation, as well as the methodology for the consolidation of capital requirements and the rules applicable for minority interest and additional Tier 1 and Tier 2 instruments issued by subsidiaries in the context of prudential consolidation. The aim of these RTS is to ensure prudential consolidation is carried out in a harmonised and consistent way. These RTS are the last regulatory products of the **EBA Roadmap on investment firms**, released in June 2020.

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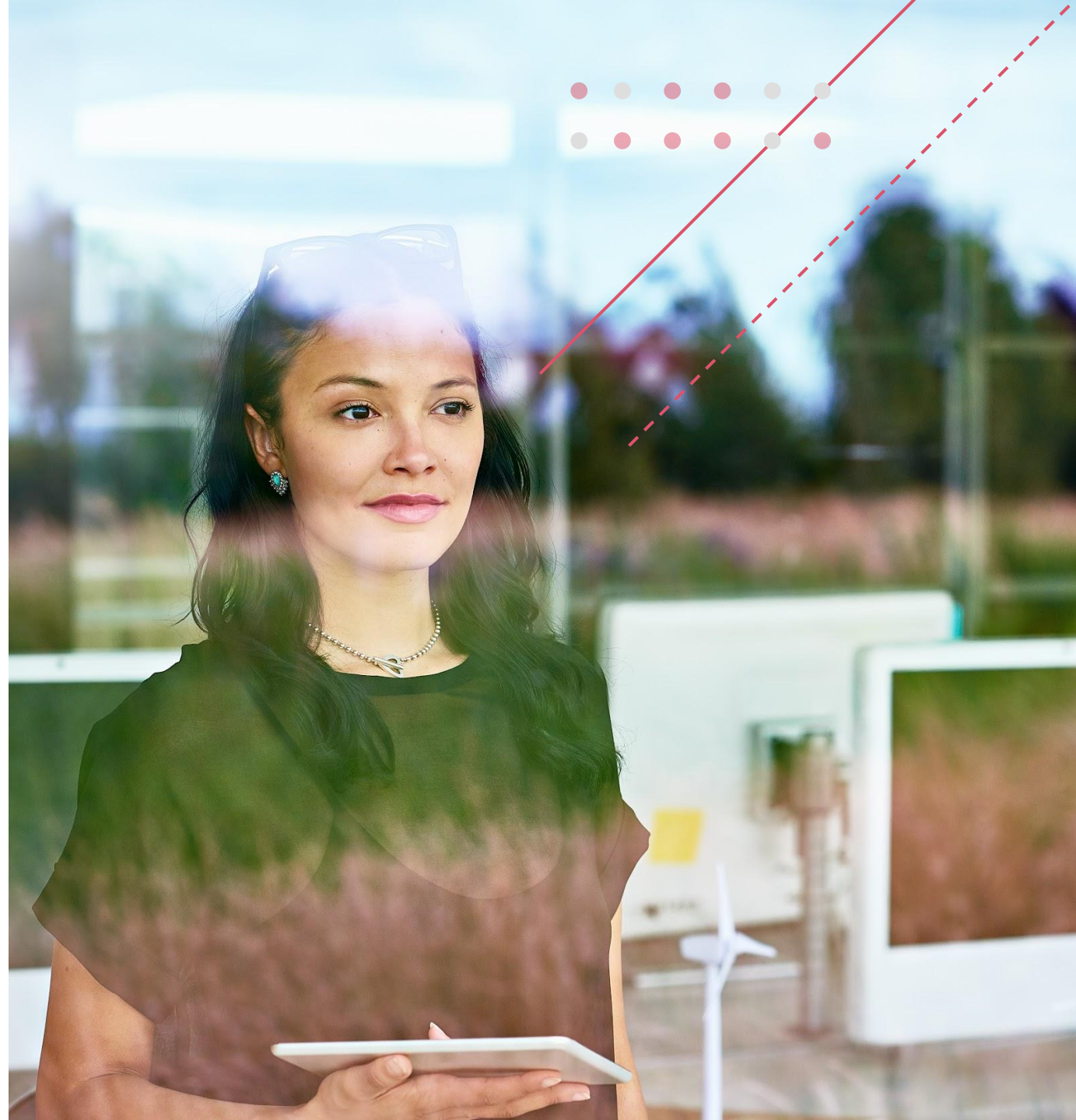
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EBA updates data on deposit guarantee schemes across the European Economic Area

The EBA published end-2022 data related to two key concepts and indicators in the Deposit Guarantee Schemes Directive (DGSD), namely available financial means (AFMs) and covered deposits. The EBA publishes these data for the deposit guarantee scheme (DGS) in each Member State on a yearly basis to enhance the transparency and public accountability of DGSs across the EEA to the benefit of depositors, markets, policymakers, DGSs and Members States.



ESAs publish Joint Annual Report for 2022

The Joint Committee of the ESAs published its 2022 Annual Report, which provides an account of its joint work completed over the past year.



EBA publishes final draft technical standards on the determination of the exposure value of synthetic excess spread in synthetic securitisations

The EBA published its final draft RTS specifying the determination by originator institutions of the exposure value of synthetic excess spread (SES). These draft RTS clarify the calculation of the components that should be included in this exposure value taking into account the relevant losses expected to be covered by SES.



ESAs draw consumers' attention to how rises in inflation and interest rates might affect their finances

In May the three ESAs published an interactive factsheet to help consumers understand how the recent increases in inflation and interest rates can affect their money. This includes the financial products and services that consumers currently hold or plan to buy, such as loans, savings, financial investments, insurance and pensions.



EBA updates on the definition of a large decline of net interest income in relation to the interest rate risk in the banking book

The EBA published an Opinion in response to the EU Commission's amendments relating to the draft RTS on the supervisory outlier tests (SOT) specifying technical aspects of the revised framework on interest rate risks for banking book (IRRBB) positions. The EBA confirms its close scrutiny on the implementation of the IRRBB regulatory products and more generally on the impact of the evolving interest rates on the management of IRRBB by EU institutions and on other related prudential aspects.

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EBA consults on guidance on benchmarking of diversity practices

The EBA launched a consultation on Guidelines on the benchmarking of diversity practices including diversity policies and gender pay gap under the Capital Requirements Directive (CRD) and the Investment Firms Directive (IFD). The EBA has been collecting data on diversity since 2015 based on information requests. The issuance of these Guidelines will lead to a higher level of transparency regarding the EBA's work on the topic of diversity and gender equality and will help improve the quality of the collected data as well as the awareness of all stakeholders on these topics.

The consultation ended on 24 July 2023.

ESAs launch discussion on criteria for critical ICT third-party service providers and oversight fees

The ESAs published a joint Discussion Paper seeking stakeholders' input on aspects of the Digital Operational Resilience Act (DORA). This Discussion Paper follows the European Commission's request for technical advice on the criteria for critical ICT third-party providers (CTPPs) and the oversight fees to be levied on them.

EBA consults on the draft Guidelines on the STS criteria for on-balance-sheet securitisations

The EBA launched a public consultation on its draft Guidelines on the criteria related to simplicity, standardisation and transparency and additional specific criteria for on-balance-sheet securitisations (so-called STS criteria). These Guidelines will ensure a harmonised interpretation of these STS criteria, in alignment with the EBA Guidelines for traditional securitisations. The consultation ended on 7 July 2023.

EBA updates list of risk indicators and analysis tools

In June, the EBA published an updated list of indicators for risk assessment and risk analysis tools, together with the accompanying methodological guide. Without adding any reporting burden neither on reporting institutions nor on competent authorities, this guidance describes how risk indicators are computed in EBA publications. It will allow competent authorities and users of EBA data to interpret key bank figures in a consistent fashion when conducting their risk assessments and analyses.

EBA adopts a charter on diversity and inclusion

The EBA published its final draft RTS specifying the determination by originator institutions of the exposure value of synthetic excess spread (SES). These draft RTS clarify the calculation of the components that should be included in this exposure value taking into account the relevant losses expected to be covered by SES.



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EBA updates list of other systemically important institutions

In June, the EBA updated the list of other systemically important institutions (O-SIIs) in the EU, which, together with global systemically important institutions (G-SIIs), are identified as systemically important by the relevant authorities according to harmonised criteria laid down in the [EBA Guidelines](#). This list is based on year-end-2022 data and includes the overall score calculated according to the EBA Guidelines and the capital buffer rate that the relevant authorities have set for the identified O-SIIs. The list is available also in a user-friendly visualisation tool.

ESAs call for vigilance in the face of mounting financial risks

The three ESAs issued their Spring 2023 Joint Committee Report on risks and vulnerabilities in the EU financial system. While noting [that](#) EU financial markets remained broadly stable despite the challenging macro environment and recent market pressure in the banking sector, the three Authorities are calling on national supervisors, financial institutions and market participants to remain vigilant in the face of mounting risks.

EBA Annual Report highlights key achievements in 2022

In June, the EBA today published its Annual Report that sets out the activities and achievements in 2022 and provides an overview of the key priorities for 2023.

ESAs consult to amend technical standards on the mapping of ECAs' credit assessments

The Joint Committee of the three ESAs launched a public consultation to amend the Implementing Regulations on the mapping of credit assessments of External Credit Assessment Institutions (ECAIs) for credit risk. The Implementing Regulations are part of the EU Single [Rulebook](#) for banking and insurance aimed at creating a safe and sound regulatory framework consistently applicable across the EU.

The [consultation](#) ended on 26 June 2023.

EBA publishes final draft technical standards specifying the data collection for the benchmarking exercise in 2024

In June, the EBA published its final draft Implementing Technical Standards (ITS) on the benchmarking of credit risk, market risk and IFRS 9 models for the 2024 exercise. The most significant change, compared to the data collection of 2023, is the roll out for the benchmarking of accounting metrics (IFRS 9) to high default portfolios (HDP). For market risk, new templates are added 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 have been made.

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EBA notes EU wide consistent implementation of 2022 priorities in supervisory work programmes and further improvements in the functioning of supervisory colleges but calls for more attention in some areas

The EBA published its annual Report on convergence of supervisory practices for 2022. The common supervisory impetus across the EU met its goal for most of the supervisory priorities set in the EBA European Supervisory Examination Programme for 2022 (ESEP), although competent authorities are still in the process of building up their capacity to review the risks associated with the digital transformation and environmental, social and corporate governance (ESG). Competent authorities also showed ability to react to macro events that affected the financial situation of institutions under their supervision, though timely information exchange and cooperation should be enhanced. Lastly, supervisors consciously applied proportionality in their supervisory practices.

EBA Peer Review finds credit valuation adjustment risk is overall supervised sufficiently and recommends some follow-up measures to further strengthen supervision

The EBA published its Peer Review on excluding transactions with non-financial counterparties established in a third country from credit valuation adjustment (CVA) risk. The Review found that the competent authorities targeted in this review assessed CVA risk sufficiently although some elements of such an assessment were missing. The EBA, therefore, has set out a series of follow-measures to address these deficiencies.

ESAs consult on the first batch of DORA policy products

In June, the ESA launched a public consultation on the first batch of policy products under the DORA. This includes four draft RTS and one set of draft ITS. These technical standards aim to ensure a consistent and harmonised legal framework in the areas of ICT risk management, major ICT-related incident reporting and ICT third-party risk management. The consultation runs until 11 September 2023.

EBA consults on new RTS and ITS on supervisory colleges

The EBA launched a public consultation on draft Regulatory Technical Standards (RTS) and draft Implementing Technical Standards (ITS) on the functioning of supervisory colleges under the Capital Requirements Directive (CRD). These new technical standards will ensure that the Level 2 framework for the functioning of supervisory colleges is better aligned with the Level 1 regulation and able to promote a more efficient and effective supervision of cross-border banking groups.

The consultation runs until 30 August 2023.

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