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## EUROPEAN CENTRAL BANK (ECB)

### **Supervisory banking statistics – The ECB publishes supervisory banking statistics for Q3 2022**

11 January 2023 – The European Central Bank (ECB) has published its supervisory banking statistics for the third quarter of 2022. The statistics are calculated by aggregating the data that is reported by banks which report COREP (capital adequacy information) and FINREP (financial information) at the relevant point in time the report covers: (i) balance sheet composition and profitability; (ii) capital adequacy and leverage; (iii) asset quality; (iv) funding; and (v) liquidity. Among other points, the results show:

- the aggregate capital ratios of significant institutions decreased, with the aggregate Common Equity Tier 1 ratio down to 14.74%, compared with 14.97% in the previous quarter;
- the non-performing loans ratio (excluding cash balances) at central banks and other demand deposits decreased to 2.29%, down from 2.35% in the previous quarter;
- loans showing significant increase in credit risk (stage 2 loans) continued to grow slightly, standing at 9.79%, up from 9.72% in the previous quarter; and
- the aggregated annualised return on equity was stable at 7.55% compared with 7.59% in the previous quarter.

*Press release*

*ECB supervisory statistics Q3*

### **Climate-related statistical indicators – ECB publishes new climate-related statistical indicators to narrow climate data gap**

24 January 2023 – The ECB has published a first set of climate-related statistical indicators as part of the commitments under its climate action plan. The indicators are intended to support the analysis of climate-related issues for the financial sector and are a first step

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to help narrow the climate data gap. The indicators cover sustainable finance, carbon emissions and climate-related physical risks. The report indicates that they require further improvement, which will be addressed in future work.

The report provides a broad description of each indicator:

- experimental indicators of sustainable finance, which comprise indicators relating to the issuance and holdings of sustainable debt securities by euro area and EU residents. The issuer classifies the debt securities, issued or held in the euro area, as “green”, “social”, “sustainability” or “sustainability linked”;
- analytical indicators of carbon emissions financed by financial institutions, which provide information on the carbon intensity of the securities and loan portfolios of financial institutions, and on the financial sector’s exposure to counterparties with carbon-intensive business models; and
- analytical indicators of climate-related physical risks, which analyse the impact of natural hazards, such as floods, wildfires or storms, on the performance of loans, bonds and equity portfolios.

[ECB Report: Towards climate related statistical indicators](#)

[Press release](#)

[ECB action plan](#)

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### **2023 stress test – ECB and EBA announce EU-wide stress test**

31 January 2023 - The European Banking Authority (EBA) has published a statement announcing the launch of its 2023 EU-wide stress test for banks. This year’s exercise is designed to assess the resilience of EU banks in the current uncertain and changing macroeconomic environment. The adverse scenario is based on a narrative of hypothetical heightened geopolitical tensions, with high inflation and higher interest rates having strong adverse effects on private consumption and investments, both domestically and globally. The EBA notes that “*in terms of GDP decline, the 2023 adverse scenario is the most severe used in the EU wide stress up to now.*”

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The 2023 exercise covers a sample of 70 EU banks, covering roughly 75% of total banking assets in the EU and Norway. UK banks are no longer included in the sample following the UK's withdrawal from the EU. In a separate press release, the ECB notes it will stress test a total of 99 directly supervised banks in 2023, 42 of which are medium-sized banks that are not included in the EBA-led stress test sample due to their smaller size.

The regulators have published the following documents:

- a methodological note, outlining how banks should calculate the stress impact of the common scenarios which also sets constraints for their calculation;
- templates and template guidance;
- information on the macro-financial scenario, prepared by the European Systemic Risk Board (ESRB); and
- FAQs on the stress test.

The results of the exercise are expected to be published by 31 July 2023.

[EBA press release](#)

[ECB press release](#)

**Please see the 'Single Supervisory Mechanism' section below for an item on the ECB's Memorandum of Understanding signed with national competent authorities of six EU member states not participating in the Single Supervisory Mechanism.**

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## EUROPEAN BANKING AUTHORITY (EBA)

### **PSD2 – EBA publishes peer review on authorisation**

*11 January 2023* – The European Banking Authority (EBA) has published its peer review on the authorisation of payment institutions and e-money institutions under the revised Payment Services Directive ((EU) 2015/2366) (PSD2), taking into account the EBA guidelines on authorisation issued in 2017 in support of PSD2.

Overall, the EBA found that national competent authorities (NCAs) have largely or fully applied the guidelines, thus contributing to consistency and transparency in the authorisation process. However, the peer review identified divergent practices in relation to the assessment of business plans, applicants' governance arrangements and internal control mechanisms. It also highlighted differences in applicants' compliance with PSD2 requirements on 'local substance', i.e. the need for payment institutions to have their head office in the EU member state where they are seeking authorisation and to conduct part of their activities there.

The report also shows that the average duration of the overall authorisation process varies significantly across NCAs, ranging from four to 20 months or more. The quality of applications and applicants' timeliness in addressing issues identified appear to be key reasons for delay, but different timelines set out in national laws, and different procedural approaches in the acceptance and assessment of applications, also cause variations in the duration of different jurisdictions' authorisation processes.

The EBA has set out follow-up measures for NCAs, which it will review in two years' time, and some best practices which might benefit NCAs. These follow-up measures include targeted measures for specific NCAs to strengthen consistency and effectiveness, as well as follow-up measures for all NCAs, which include:

- reviewing their authorisation resources and processes to ensure that they remain adequate to scrutinise applications within a reasonable timeframe;

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- ensuring that applicants have a ‘three lines of defence’ model that includes the functions of risk management, compliance and internal audit, where the nature, scale and complexity of their activities makes this appropriate; and
- ensuring that applicants are effectively managed and controlled from the jurisdiction in which they seek authorisation.

[EBA: Report on peer review on authorization under PSD2](#)

[Press release](#)

## **MREL – EBA publishes its annual quantitative report on minimum requirement for MREL**

16 January 2023 – The EBA has published its annual quantitative Report on minimum requirement for own funds and eligible liabilities (MREL), as mandated under article 45 of the Bank Recovery and Resolution Directive (2014/59/EU) (BRRD). The Report is complemented by an analysis which looks at the impact of the MREL framework on a number of relevant dimensions.

The report is based on data submitted to the EBA as of 31 December 2021, and all MREL decisions in force as of 1 May and communicated by 31 May 2022 have been considered. The EBA estimates that 70 banks reported an MREL shortfall of EUR 33 billion out of a sample of 245. This is down by 42% compared to the previous year’s quantitative report on MREL on a comparable basis.

The report provides the following results:

- resolution entities reduced or closed their MREL shortfall by increasing the stock of eligible instruments rather than deleveraging;
- as of December 2021, own funds instruments represented the main source to comply with MREL, and senior non-preferred debt was the most important type of eligible debt;

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- most resolution banks showed high levels of issuance over 2021;
- the impact of the MREL framework on banks' profitability appeared manageable across different types of banks and member states; and
- tightening funding conditions are not expected to represent major difficulties in the management of MREL resources for any specific type of bank.

[Press release](#)

[EBA MREL report](#)

### **High earners – EBA publishes 2021 report**

19 January 2023 – The EBA has published its report on high earners in EU banks as at the end of 2021 (EBA/REP/2023/05).

The analysis shows a significant increase in the number of individuals working for EU banks and investment firms who received remuneration of more than EUR 1 million, compared to the 2020 financial year. According to the EBA, this increase is linked to: (i) the good financial performance of institutions, particularly in investment banking and trading and sales; (ii) the continuation of relocation of staff to the EU activities in the context of Brexit; and (iii) an overall increase in salary levels. The EBA observes that another relevant factor supporting the upwards trend may be the loosening of relevant COVID-19 restrictions. The analysis also notes that the weighted average ratio of variable to fixed remuneration for all high earners increased from 86.4% in 2020 to 100.6% in 2021.

The EBA will continue to publish data on high earners annually. It intends to collect data for 2022 based on revised guidelines on higher earner data collection exercises.

[EBA report on high earners data as end of 2021](#)

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## **Sustainability Reporting – EBA issues Opinion to the European Commission on the draft ESRS**

26 January 2023 – The EBA has published an Opinion on the draft European Sustainability Reporting Standards (ESRS) developed by the European Financial Reporting Advisory Group (EFRAG). The draft ESRS set out the rules and requirements for companies to report on sustainability-related aspects under the Corporate Sustainable Reporting Directive (CSRD). Overall, the EBA welcomes the consistency of the ESRS with international standards and relevant EU regulations, and its better alignment with the disclosure requirements under the EBA Pillar 3 framework. It indicates that a few aspects should be considered further by the European Commission:

- interoperability with international standards, especially having in mind the different timelines followed by the EFRAG and International Sustainability Standards Board (ISSB);
- additional guidance and clarification on the materiality assessment and implementation of the value chain concept for institutions operating in the financial sector;
- further alignment with the EBA's Pillar 3 requirements when developing sector-specific standards; and
- additional clarification and consistency between the draft ESRS, the Accounting Directive and the Directive against fraud in the EU.

[Press release](#)

[EBA's Opinion](#)

[Letter from European Commission to EBA](#)

[EBA response to EFRAG consultations](#)

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### **CRR - EBA publishes Consultation Paper on interest rate risk for banking book**

*January 2023* – The EBA has published a Consultation Paper on amendments to its draft implementing technical standards (ITS) on supervisory reporting with respect to interest rate risks for the banking book (IRRBB). The Consultation Paper proposes new harmonised reporting for the assessment and monitoring of institutions' IRRBB across the EU. This will allow supervisors to monitor IRRBB risks in credit institutions, taking into consideration the concept of proportionality.

The deadline for comments on the draft ITS is 2 May 2023. The EBA will hold a public hearing to discuss its proposals on 13 March 2023. The EBA expects to finalise the draft ITS and submit the amending final draft ITS to the European Commission in mid-2023. The EBA also intends to develop the data-point model (DPM), XBRL taxonomy and validation rules based on the final draft amending ITS. The anticipated first reference date for the application of the ITS is June 2024 and the expected implementation period for the proposed changes is approximately one year.

[EBA Consultation Paper: Draft Implementing Technical Standards amending Commission Implementing Regulation \(EU\) 2021/451 with regard to IRRBB reporting](#)

[Press release](#)

### **System for the exchange of information relevant to fit and proper assessment – ESAs consult on draft Guidelines covering the system for the exchange of information relevant to fit and proper assessments**

*31 January 2023* – The European Supervisory Authorities (EBA, EIOPA and ESMA – ESAs) have published a Consultation Paper on the draft joint Guidelines covering the system for exchange of information when assessing the fitness and propriety requirements. These Guidelines aim to increase the efficiency of the information exchange between sectoral supervisors by harmonising practices and clarifying how national competent authorities should use the information system developed by the three ESAs. The deadline for comments on the Consultation Paper is 2 May 2023.

[Press release](#)

[ESAs Consultation Paper](#)



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## SINGLE SUPERVISORY MECHANISM (SSM)

### **Single Supervisory Mechanism - ECB and NCAs agree MoU**

25 January 2023 – The European Central Bank (ECB) and national competent authorities (NCAs) for six EU member states not participating in the Single Supervisory Mechanism (SSM) have signed a Memorandum of Understanding (MoU). The MoU provides a framework for the Czech Republic, Denmark, Hungary, Poland, Romania and Sweden to share information and coordinate supervisory activities related to credit institutions. Among other things, it sets out how the parties will cooperate on matters such as authorisation procedures, qualifying holdings assessments and fit and proper assessments of key function holders.

*MoU between the ECB and the competent authorities of non-participating EU member states for the performance of their supervisory tasks*

*Press release*

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# EUROPEAN BANKING NEWSLETTER

FEBRUARY 2023

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## SINGLE RESOLUTION MECHANISM (SRM)

No relevant items.

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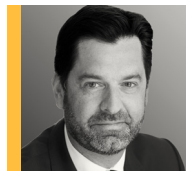
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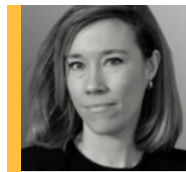
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