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## NEWS FROM THE ECB

### **Transition from EONIA to €STR - ECB publishes working group report on the transfer of liquidity for cash and derivative products**

*19 February 2020* - The European Central Bank (ECB) has published a report by its private sector working group on euro risk-free rates on the transfer of liquidity from euro overnight index average (EONIA) cash and derivatives products to the euro short-term rate (€STR). This follows the ECB's report on the impact of transitioning from the EONIA to the €STR for cash and derivative products, which was published in August 2019.

The report highlights that contracts referencing EONIA, with maturities beyond 3 January 2022, “entail significant risks” and therefore recommends that: (i) market participants should replace EONIA products with €STR products and reduce their EONIA-linked legacy exposures as soon as possible; and (ii) central counterparties (CCPs) should consider developments in the ‘nettability’ (compression) of €STR and EONIA. The report also encourages participants proactively to price in €STR, by default, rather than EONIA in order to accelerate the transition process.

The ECB working group expects a full migration from EONIA-linked to €STR-linked products.

ECB working group report on the transfer of liquidity from EONIA cash and derivative products to the €STR is [here](#).

Press release is [here](#).

### **Joining forces: Stepping up coordination on risks in central clearing - speech by Fabio Panetta, Member of the Executive Board of the ECB**

*26 February 2020* - Fabio Panetta (Member of the Executive Board of the ECB) has delivered a speech addressing the key risk management challenges in central clearing. Mr Panetta emphasises that effective coordination between banks, CCPs and national competent authorities is essential for the safety of central clearing, before going on to highlight the main shortcomings in this field and proposing possible remedies.

Two main weaknesses in current coordination arrangements are identified: (i) diverging interests of banks and CCPs in the management of CCP risk; and (ii) the propagation of serious knowledge gaps between banks and CCPs in areas such as prudential requirements and preparedness for extreme stress events. Mr Panetta proposes several actions to enhance supervisory coordination, including measures to improve the institutional setting for information sharing and coordination among CCPs, banks and public authorities. He also advocates targeted regulatory action, including action to address the diverging interests in relation to the allocation of losses in CCP recovery and resolution.

Speech by Fabio Panetta (Member of the Executive Board of the ECB) on improving coordination arrangements relating to CCP risk management is [here](#).

**Climate change and the financial sector - speech by Christine Lagarde, President of the ECB**

27 February 2020 - Christine Lagarde (President of the ECB) has delivered a speech at the launch of the 2020 UN Climate Change Conference (COP 26) Private Finance Agenda addressing the potential impact of climate change-related risks on the financial sector. Ms Lagarde expounds on climate-related risks stemming from three broad categories: (i) risks from disregarding the impact of climate change; (ii) risks from delaying the regulatory response to climate change; and (iii) risks from deficiencies in the provision of finance to adapt to and mitigate the impact of climate change on the financial sector. She emphasises that central banks must devote greater attention to understanding the impact of climate change on the financial sector and to considering how to address sustainability considerations within their monetary policy frameworks.

Ms Lagarde further states that the ECB is assessing banks' approaches to climate risks and developing supervisory expectations on those risks. The ECB is also undertaking preparatory work on the development of a macroprudential stress test to assess climate-related risks, the results of which are expected to be published by the end of 2020.

Speech by Christine Lagarde (President of the ECB) on the impact of climate-related risks on the financial sector is [here](#).

**Protecting the European financial sector: The Cyber Information and Intelligence Sharing Initiative - speech by Fabio Panetta, Member of the Executive Board of the ECB**

27 February 2020 - Fabio Panetta (Member of the Executive Board of the ECB) has delivered a speech addressing the importance of protecting financial market infrastructures (FMIs) from cyber attacks. In particular, he highlights the progress made to increase cyber resilience, including:

- the adoption by EU FMIs and the World Bank of the ECB's cyber resilience oversight expectations, published in 2018;
- the introduction and increasing adoption of the European Framework for Threat Intelligence-based Ethical Red Teaming, which helps entities test and improve their resilience against sophisticated cyber attacks; and
- the launch of the Cyber Information and Intelligence Sharing Initiative, which aims to allow the most important FMIs to discuss cybersecurity threats, share related intelligence and best practice, and receive biannual threat reports informing them of strategic issues pertinent to their businesses.

Speech by Fabio Panetta (Member of the Executive Board of the ECB) on improving the cyber resiliency of FMIs is [here](#).

**Supervised entities as of 1 January 2020 – ECB publishes updated list of supervised entities**

27 February 2020 - The ECB has published an updated list of significant supervised entities (directly supervised by the ECB), and less significant supervised entities (indirectly supervised by the ECB).

Updated List of supervised entities as of 1 January 2020 is [here](#).

**Internal models for calculating counterparty credit risk - ECB publishes consultation on draft Guide addressing assessment methodology**

*February 2020* - The ECB has published for consultation a second draft Guide on the methodology for assessing the internal models applied by banks to calculate their exposure to, and capital requirements for, counterparty credit risk under the Capital Requirements Regulation (EU) 575/2013 (CRR).

The consultation period closes on 18 March 2020.

ECB draft Guide on the assessment methodology for banks' internal models for calculating counterparty credit risk under CRR is [here](#).

FAQs are [here](#).

Webpage is [here](#).

Press release is [here](#).

## NEWS FOR THE SINGLE RESOLUTION MECHANISM (SRM)

### **MREL - SRB launches consultation on policy changes**

*February 2020* - The Single Resolution Board (SRB) has launched a public consultation on proposed changes to its policy on the minimum requirement for own funds and eligible liabilities (MREL). The proposed changes would bring the policy in line with amendments introduced by the 2019 EU banking reform package, including the fifth Capital Requirements Directive (EU) 2019/878 (CRD V), the second Capital Requirements Regulation (EU) 2019/876 (CRR II), the second Bank Recovery and Resolution Directive (EU) 2019/879 (BRRD II) and the second Single Resolution Mechanism Regulation (EU) 2019/877 (SRM II). A number of areas are addressed, including: (i) calibration; (ii) subordination for resolution entities; (iii) internal MREL requirements for non-resolution entities; (iv) MREL requirements for co-operative groups; and (v) eligibility of liability issues under the law of third countries.

The new policy changes will be phased in by 2024, with intermediate targets set for 1 January 2022 and 2023.

The consultation period closes on 6 March 2020. Feedback will help the SRB prepare its Policy Statement, which it plans to publish in April 2020.

SRB survey on proposed changes to its MREL policy is [here](#).

SRB consultation document on proposed changes to its MREL policy is [here](#).

Press release is [here](#).

## EFIG GROUP

Our European Financial Institutions Group, consisting of 'Best Friends' BonelliErede, Bredin Prat, De Brauw Blackstone Westbroek, Hengeler Mueller, Slaughter and May and Uría Menéndez, brings together market-leading lawyers with corporate and financing experience and financial regulatory skills.

We have unrivalled coverage of regulatory developments in the EU, which enables us to provide pure regulatory advice on the interpretation and application of EU directives and regulations. We also have strong connections with the best financial institutions lawyers in the United States, Asia and South America.

Our many years of experience of advising a diverse range of major financial institutions allows us to offer the most incisive advice available.

If you would like to discuss any of the developments in this update, or any other financial regulatory matter, please contact one of the following or your usual EFIG contact.



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**EUROPEAN  
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