

RegWatch newsletter – December 2020

Contact the authors: [Elena Atienza \(elena.atienza@reacfin.com\)](mailto:elena.atienza@reacfin.com), [Antoine Gustin \(antoine.gustin@reacfin.com\)](mailto:antoine.gustin@reacfin.com)

This month's News

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CRR/CRD

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07/12/2020 The BCBS issues a supplemental note to its 2014 guidance on external audits for banks, following the implementation of ECL accounting frameworks in various jurisdictions. The note outlines supervisory expectations for the audit of ECL estimates and provides questions that banks' audit committees may ask the external auditor.

See [the related BCBS press release](#)

10/12/2020 The EBA updates its Report on the impact of Basel III reforms on the capital of EU banks. Updated results are in line with previous versions of the Report, now estimating that EU banks' T1 capital requirements would increase by 15.4% by 2028.

See [the EBA press release about the updated report on Basel III impact](#)

11/12/2020 The EBA publishes its annual Risk Assessment, along with the results of the 2020 EU-wide transparency exercise. The Report notes that capital and liquidity ratios have been maintained well above regulatory minimums throughout the COVID-19 shocks. Additionally, and notwithstanding still decreasing NPL ratios, the Report notes a marked increase in loans classified under IFRS 9 stage 2 and forborne exposures. The EBA thus expects material decreases in asset quality over the next quarters.

See [the EBA press release on results of the 2020 Risk Assessment](#)

16/12/2020 The EBA publishes its final draft RTS on the contractual recognition of stay powers under BRRD. These RTS ensure that financial contracts bound by third-country law include a term by which parties agree to be bound to BRRD rules under any resolution process.

See [the related EBA press release](#)

16/12/2020 The EBA consults on draft RTS on the calculation of risk-weighted exposure amounts of collective investment undertakings (CIUs) under CRR 2. The proposed RTS clarify how the exposure amounts of CIUs should be calculated under the *Mandate-Based Approach* (MBA) in the presence of missing inputs. The consultation runs until 11 February 2021.

See [the EBA press release about this consultation](#)

17/12/2020

The EBA publishes a consultation paper proposing to amend the EC's Implementing Regulation on the benchmarking of credit risk, market risk and IFRS9 models so as to include some new elements for the 2022 exercise, in particular:

- For credit risk, additional information on the level of conservatism embedded in the IRB risk parameters;
- For market risk, new sensitivities related to the so-called sensitivities-based method, in line with the new FRTB framework;
- For the IFRS9 exercise, updated templates with the collection of additional IFRS 9 parameters.

See [the EBA press release about the consultation on standards for internal models benchmarking](#)

22/12/2020

The EBA publishes a Report proposing the implementation of an EU-wide floor methodology to calibrate buffer rates of O-SIIs. Under the proposed approach, all EU institutions identified as O-SII will be assigned a non-zero percent buffer rate, with NCAs retaining the flexibility to assign higher buffers when deemed appropriate.

See [the related EBA press release](#)

23/12/2020

The EBA publishes final draft RTS on the methodology to be used by resolution authorities to estimate P2R and CBR at resolution group level for the setting of MREL, under BRRD.

See [the related EBA press release](#)

23/12/2020

The EBA publishes final draft RTS and ITS on the impracticability of contractual recognition of bail-in powers under BRRD.

See [the related EBA press release](#)

Solvency II

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17/12/2020

The EIOPA submits its final technical advice on the Solvency II Review to the EC. Key changes proposed by EIOPA include:

- An increased calibration of the *Interest Rate Risk* submodule to reflect the low-rates environment, through a revised approach to yield curve shocks;
- Modifications to the risk-free curve extrapolation methodology;
- Changes to the calculation of the *Volatility Adjustment (VA)*, splitting it into a “permanent” and a “macro” component, and recognizing the illiquidity of underlying securities;
- Changes to the Risk Margin to recognize the effect of diversification over time;
- A revision of criteria for the ability to hold equity long-term;
- The introduction of a macroprudential supervision framework.

See [the Factsheet on the EIOPA final advice on Solvency II Review \[PDF\]](#)

See [the Opinion on the 2020 Review of Solvency II \[PDF\]](#)

MiFIR/MiFID

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16/12/2020 The European Parliament, Council and Commission reach agreement on the MiFID “quick fix” package, which was first proposed in July 2020 to support capital markets recovery from the COVID-19 pandemic. The amendments target investor protection and research rules, commodity derivatives, and the ancillary activity exemption. The changes are expected to come into effect around early 2022.

See [Regulation Tomorrow’s summary on agreement over MiFID “quick fix” package](#)

IFR/IFD

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17/12/2020 The EBA publishes seven final draft RTS on the prudential treatment of investment firms, as part of the first phase of its IFR/IFD roadmap. These RTS provide a foundation for the implementation of IFR/IFD scheduled for mid-2021, and address the following topics:

- The calculation of the fixed overheads requirement and definition of “material change” ;
- The methodology for measuring K-factors;
- The notion of segregated accounts;
- The adjustments to the K-DTF coefficients;
- The amount of total margin for the calculation of K-CMG;
- The criteria under which certain investment firms will be subject to CRR rules.

See [the EBA press release on the publication of first-phase IFR/IFD final RTS](#)

See [the final draft RTS on prudential treatment of investment firms](#)

17/12/2020 The EBA consults on two new Guidelines on remuneration policies and internal governance under IFD. These Guidelines specifies the remuneration and governance provisions that Class 2 investment firms should comply with, taking into account the proportionality principle. Both consultations run until 17 March 2021.

See [the EBA press release about the consultation on IFD remuneration policies Guidelines](#)

See [the EBA press release about the consultation on IFD internal governance Guidelines](#)

FRTB

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17/12/2020 The EBA publishes final draft RTS on capital requirements in relation to non-modellable risk factors (NMRFs) for institutions using the FRTB *Internal Model Approach* (IMA).

See [the related EBA press release](#)

09/12/2020 IASB calls for feedback on the IFRS Standards for group accounting—IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*—as part of their Post-implementation Review. The deadline for comments is 10 May 2021.

See [the related IASB press release](#)

17/12/2020 IASB issues an update to the IFRS Taxonomy 2020 to reflect Interest Rate Benchmark Reform—Phase 2, issued in August 2020, which amended IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures*, IFRS 4 *Insurance Contracts* and IFRS 16 *Leases*.

See [the related IASB press release](#)

Others

07/12/2020 ESAs remind market participants that the end of the UK Transition Period implies a change in the status of STS securitization transactions. Transactions [previously] labelled as STS where one or all the securitisation parties (originator, sponsor and/or the SSPE) are established in the UK after the end of the transition period will lose their STS status.

See [the related EBA press release](#)

08/12/2020 The EBA issues a reminder to EU customers of the impact of the end of the Brexit Transition Period, which took place on 31 December 2020.

See [the EBA statement on impact for customers of the end of the Brexit transition](#)

15/12/2020 The EBA urges banks to keep on refraining from distributing capital outside the banking system when deciding on dividends and other distribution policies, in light of the COVID-19 pandemic.

See [the related EBA press release](#)

31/12/2020 The FCA updates its Q&A on the implications of Brexit for UK firms after the end of the Transition Period.

See [the FCA Q&A on considerations for UK firms after the Transition Period](#)

List of acronyms used in this issue

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BCBS	Basel Committee on Banking Supervision
BRRD	Directive 2014/59/EU (Bank Recovery and Resolution Directive)
CBR	Combined Buffer Requirements (see BRRD)
CIU	Collective Investment Undertaking (see CRR/CRD)
CRD	Directive 2013/36/EU (Capital Requirements Directive)
CRR	Regulation 2013/575/EU (Capital Requirements Regulation), amended by Regulation 2019/876/EU (CRR 2)
EBA	European Banking Authority
EC	European Commission
ECL	Expected Credit Loss (see CRR/CRD)
EIOPA	European Insurance and Occupational Pensions Authority
ESA	European Supervisory Authorities
EU	European Union
FCA	Financial Conduct Authority (UK)
FRTB	Fundamental Review of the Trading Book
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFD	Directive (EU) 2019/2034 (Investment Firms Directive)
IFR	Investment Firms Regulation (see IFD)
IFRS	International Financial Reporting Standard
IMA	Internal Model Approach
IRB	Internal-Ratings Based
ITS	Implementing Technical Standards
MiFID	Markets in Financial Instruments Directive
MiFIR	Markets in Financial Instruments Regulation
MREL	Minimum Requirement for Own Funds and Eligible Liabilities
NCA	National Competent Authority
NMRF	Non-Modellable Risk Factor (see FRTB)
NPL	Non-Performing Loan
O-SII	Other Systemically Important Institution
RTS	Regulatory Technical Standards
STS	Simple, Transparent and Standardized (see Securitization Regulation, CRR)
UK	United Kingdom
VA	Volatility adjustment

About Reacfin

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For more information, please visit our website www.reacfin.com or contact one of our managing partners:



Xavier Marechal
Tel: +32 497 48 98 48
Mail : xavier.marechal@reacfin.com



François Ducuroir
Tel: +32 472 72 32 05
Mail : francois.ducuroir@reacfin.com