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Sound practices in counterparty credit risk governance and management - ECB consults on report

2 June 2023 – The European Central Bank (ECB) has published for consultation a draft report on sound practices in counterparty credit risk (CCR) governance and management (the Report).

The ECB identified CCR as a supervisory priority for 2022 to 2024 as banks had been increasingly offering capital market services to riskier, leveraged and less transparent counterparties, particularly non-bank financial institutions.

The Report summarises the results of the targeted review on how banks govern and manage CCR that was carried out by the ECB during the second half of 2022. As explained in the related press release, the ECB conducted off-site follow-up activities in 2023 at 23 banks active in derivatives and securities financing transactions with non-bank counterparties. The ECB also carried out a number of on-site inspections. The review found room for improvement in areas such as customer due diligence, the definition of risk appetite, default management processes and stress testing frameworks.

The deadline for comments on the draft Report is 14 July 2023. The ECB will then publish the comments received along with a summary feedback statement and the final version of the report.

[ECB Draft Report: Sound practices in counterparty credit risk governance and management](#)

[Consultation webpage](#)

[Press release](#)

Role of CCPs in safeguarding stability - ECB publishes speech

22 June 2023 – The ECB has published a speech by Fabio Panetta, ECB Executive Board

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Member, on areas requiring progress to preserve the important role of central counterparties (CCPs) in safeguarding stability.

The ECB supports the European Commission's proposal to enhance EU-level CCP supervision, given that arrangements for cross-border supervision need to be commensurate with the cross-border systemic risk implications of central clearing. Mr Panetta further notes that:

- arrangements for assessing and preparing for potential non-default losses are essential, and the ECB supports the CPMI-IOSCO initiative to further explore CCPs' risk mitigants for non-default losses;
- there has been insufficient progress on preparedness for events that would go beyond that which could be considered extreme but still plausible. Progress needs to be made, particularly in conceptualising such scenarios and embedding them in CCP recovery and resolution plans; and
- while a certain degree of margin procyclicality is unavoidable in turbulent times, given that margin requirements reflect evolving risks, a certain degree of margin stability over the medium term is necessary to reduce the need for sudden, large margin calls in times of stress.

Mr Panetta reaffirms that *"short-term cost considerations - be it stimulating clearing activity in the EU, enhancing stress-testing and cooperative arrangements or stepping up margin requirements and disclosure - must be balanced against the longer-term benefits of a robust set-up in which CCPs remain a pillar of our financial system."*

Speech

Digital euro package - ECB welcomes two legislative proposals by European Commission

28 June 2023 – The European Commission has published two mutually supportive proposals to ensure the continued accessibility and acceptance of euro banknotes and coins, while establishing a framework for a potential digital euro. The legislative proposals aim to provide people with the option to choose between cash and digital payments.

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The first legislative proposal focuses on the legal tender status of euro cash, emphasising the two 'As': safeguarding the acceptance and access to cash throughout the euro area. EU member states will be responsible for ensuring widespread acceptance and access to cash, with the Commission monitoring and addressing any issues.

The ECB supports the Commission's legislative proposal to maintain the importance of cash in the payments system. The ECB finds it essential for cash to remain widely accepted in physical transactions and to maintain its legal tender status. Easy and efficient access to cash is crucial for individuals and businesses to withdraw and deposit money.

The second legislative proposal establishes the digital euro's legal framework. The digital euro would become a universal means of payment across the eurozone, having the status of legal tender for widespread acceptance. The digital euro would function as a digital wallet available for online and offline transactions. The proposal prioritises privacy and data protection, and it minimises financial risks. Offline digital euro payments would offer cash-like privacy. Banks and payment service providers would distribute the digital euro, with basic services provided free of charge. The ECB would determine whether to issue the digital euro after adoption of the legislative act.

The investigation phase of the digital euro project concludes in October 2023, followed by a decision from the ECB Governing Council on whether to proceed to the next phase. The next phase would involve further developing and testing technical solutions and business arrangements. Any decision to issue a digital euro would be made after adoption of the legislative act.

The ECB is prepared to offer technical input to assist the EU co-legislators in their work. The European Commission has recommended consulting the ECB on the proposed legislative changes.

[Webpage Digital euro package](#)

[Timeline investigation phase digital euro](#)

[Press release](#)

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EUROPEAN BANKING AUTHORITY (EBA)

2024 Benchmarking exercise for internal models – EBA publishes final draft ITS

5 June 2023 – The European Banking Authority (EBA) has published the final draft implementing technical standards (ITS) on amending Commission Implementing Regulation (EU) 2016/2070 with regard to the benchmarking of internal models. The EBA consulted on the draft ITS in December 2022.

Article 78 of the CRD IV Directive (2013/36/EU) requires national competent authorities (NCAs) to assess on an annual basis the quality of internal approaches used for the calculation of own funds requirements. To assist NCAs, the EBA calculates and distributes benchmark values that allow a comparison of individual institutions' risk parameters. These benchmark values are based on data submitted by firms in accordance with Commission Implementing Regulation (EU) 2016/2070, which specifies the benchmarking portfolios, templates and definitions to be used as part of the annual benchmarking exercises. The most significant change, compared to the data collection of 2023, is the roll out for the benchmarking of accounting metrics (IFRS9) to high default portfolios.

The EBA has submitted the draft ITS to the European Commission for endorsement. They will apply 20 days after publication in the Official Journal of the EU.

[Final Draft ITS on supervisory benchmarking for the 2024 exercise](#)

[Press release](#)

CRR - Closely correlated currencies – EBA updates list

9 June 2023 – The EBA has published a draft Commission Implementing Regulation amending Implementing Regulation (EU) 2015/2197 laying down implementing technical standards (ITS) on closely correlated currencies under the Capital Requirements Regulation (575/2013) (CRR). The EBA has also published a draft Annex which contains the updated list of closely correlated currencies.

Under the standardised approach for market risk, firms may hold lower own funds requirements for foreign exchange risk against matched positions in two currencies where

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these are considered to be “closely correlated”. The updated list has been submitted to the European Commission for endorsement.

[Updated list of closely correlated currencies](#)

[Annex](#)

[Press release](#)

Improving resolvability under BRRD – EBA publishes final report on amendments to its guidelines

13 June 2023 – The EBA has published a final report on amendments to its guidelines on improving resolvability under the Bank Recovery and Resolution Directive (2014/59/EU) (BRRD). The EBA consulted on the amendments in November 2022.

The guidelines relate to compliance with the minimum requirements in the assessment of resolvability for the purposes of Articles 15 and 16 of the BRRD in Commission Delegated Regulation (EU) 2016/1075. They require firms to prepare an annual report that assesses whether and to what extent the relevant firm meets the capabilities set out in the resolvability guidelines and the EBA’s guidelines on transferability (EBA/GL/2022/11). The guidelines now also require resolution authorities to adopt an annual resolvability testing programme for supervised firms, over a period of three years. The most complex resolution groups will be required to develop a master playbook. This should act as an overarching guide for senior management to manage and co-ordinate all firm-wide resolution actions and the execution of other resolution-related playbooks.

The amendments will apply from 1 January 2024. Firms are expected to submit their first self-assessment report by 31 December 2024 and, where applicable, their first master playbook by 31 December 2025. Resolution authorities are expected to launch the first annual resolvability testing programme by 31 December 2025.

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LCR and NSFR – EBA publishes third report on implementation

15 June 2023 – The EBA has published its third report on monitoring the implementation of the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) in the EU. This follows up on the EBA's March 2021 second report on implementation of the LCR and looks at the potential impact on LCR and NSFR levels and related implications for the liquidity and funding requirements of EU banks.

The EBA's findings include that the repayment of central bank funding (mainly the ECB's third TLTRO programme) might cause a significant reduction of the LCR at EU level. This could be exacerbated by the cumulative effect of a reduction of the liquidity buffer and additional outflows due to the impact of an adverse market scenario on derivatives transactions and collateral due on repos. The EBA also believes that the maturity of all the remaining central bank funding could cause a fall of the weighted average NSFR which, while still relevant, is assessed as somewhat less material than for the LCR.

The EBA also highlights the importance of banks developing proper funding plans that consider any necessary replacement of central bank funding as well as any potential additional risks that might arise in the current economic environment to ensure they continue to function normally.

The EBA will monitor some specific aspects of the LCR and NSFR due to current circumstances and the interest rate environment and will set out its observations and provide further guidance where necessary.

[*Third Report*](#)

[*Press release*](#)

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Single Supervisory Mechanism - ECB publishes Consultation Paper on guide to internal models

22 June 2023 – The European Central Bank (ECB) has published a Consultation Paper on a revised version of its guide to internal models under the Single Supervisory Mechanism (SSM). The revisions reflect updates on the legal framework and builds on the ECB's experience gained over the years in supervising internal models.

The revised version clarifies how banks should go about including material climate-related and environmental risks in their models. Among other things, it also:

- provides clarifications for banks that wish to revert to the standardised approach for calculating their risk-weighted assets;
- in the context of credit risk, helps banks to move towards a common definition of default and consistent treatment of massive disposals; and
- provides clarifications regarding counterparty credit risk, which is the risk that the counterparty to a transaction could default.

The deadline for responses to the Consultation Paper is 15 September 2023. The ECB will publish the comments received together with a feedback statement and the updated guide.

[ECB Consultation Paper: ECB guide to internal models](#)

[Webpage](#)

[Press release](#)

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Liquidity in resolution data - SRB publishes guidance

16 June 2023 – The Single Resolution Board (SRB) has published operational guidance for banks on the measurement and reporting of liquidity in resolution. The guidance targets the liquidity dimension of the SRB's previously issued Expectations for Banks (Efb) document, published in April 2020, which aims to enhance banks' resolvability and preparedness for potential resolution. The guidance focuses on three objectives:

- the expectation that banks' internal frameworks, governance and management information systems are set up to meet the data expectations set out in the guidance, including the ability to forecast the net liquidity position across time periods and at short notice;
- the expectation that SRB banks have developed the capabilities to report a predefined set of data points on their liquidity situation; and
- the expectation that banks have put in place remedial actions to mitigate any deficiencies in their capabilities to provide these data points at the requested level of consolidation and at a high level of frequency.

Banks are expected to build their Efb capabilities for a steady state of resolution planning, including those relating to the measurement and reporting of liquidity, by 31 December 2023.

SRB: Operational guidance for banks on the measurement and reporting of the liquidity situation in resolution

Press release

Annual Report 2022 – The SRB publishes its Annual Report for 2022

30 June 2023 – The SRB has published its Annual Report for 2022. The report provides an overview of the steps taken by the SRB during 2022 to enhance the stability of the European banking sector. Those steps include:

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- completion of the SRB's second 12-month Resolution Planning Cycle (RPC) for all banks under its jurisdiction, which has increased the number of less significant institutions (LSIs) with a resolution plan;
- publication of its first resolvability assessment, with large banks showing the most advanced progress and demonstrating sound alignment with the phase-in approach;
- fine-tuning and making operational existing guidance and tools to enhance the resolution framework; and
- making progress in developing tools for the public interest assessment (PIA).

Press release (from which annual report can be accessed)

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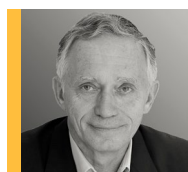
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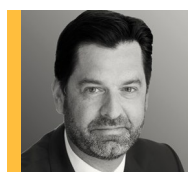
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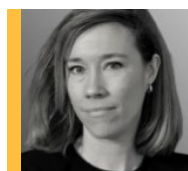
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