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NEWS FROM THE ECB

TARGET2 and TARGET2-Securities - ECB publishes update on consolidation project

4 May 2020 - The European Central Bank (ECB) has published an update on its project to consolidate various technical and functional elements of TARGET2 and TARGET2-Securities (T2-T2S), including the implementation of a new trans-European automated real-time gross settlement express transfer system using the ISO 20022 messaging standard.

The ECB states that although SWIFT intends to delay the ISO 20022 migration date for cross-border payments from November 2021 to the end of 2022, it confirms that this will not affect the T2-T2S launch date which is scheduled for November 2021. However, the possible delay in migration to ISO 20022 for cross-border payments would impact European banks' plans to adopt ISO 20022 for correspondent banking business, given that, in the interim period between November 2021 and the end of 2022, they would need to maintain their capability to send SWIFT Message Type (MT) payments and reporting messages, as well as introduce the new infrastructure for ISO 20022.

The ECB and SWIFT have jointly developed a plan to ensure data compatibility between cross-border payments sent with ISO 20022 and the MT message type. This aims to help eliminate the risk of data truncation as financial institutions in the euro area migrate to the ISO 20022 standard as part of the Eurosystem Single Market Infrastructure Gateway. SWIFT will develop market practice rules and guidelines and provide message validation and translation software for cross-border payments to T2 members.

Press release: ECB publishes update on T2-T2S consolidation project is [here](#).

COVID-19 - ECB publishes blog on the digitalisation of banking businesses

8 May 2020 - The ECB has published a blog by Petti Hakkarainen (Member of the Supervisory Board of the ECB) entitled "*The first lesson from the pandemic: state-of-the-art technology is vital*". Mr Hakkarainen notes that the sustainability of banking businesses during the current crisis "*has hinged decisively on [firms' use of] technology*", arguing that: "*to succeed in the race to digitalise, banks must continuously invest in building skills and expertise in the use of new technologies – at both operational and board levels. It is also crucial that banks firmly embed*

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their innovation strategies at all organisational levels, and closely monitor them through both financial and non-financial metrics”.

ECB blog on the increasing digitalisation of banking businesses in light of COVID-19 is [here](#).

COVID-19 - ECB publishes Opinion on amendments to the prudential framework

20 May 2020 - The ECB has published an Opinion on amendments to the EU prudential framework under proposed Regulation (2020/0066(COD)), which amends the Capital Requirements Regulation (575/2013/EU) (CRR) in response to COVID-19.

Among other things, the Opinion comments on each of the key reforms proposed by the Regulation and welcomes proposals aiming to increase the capacity of credit institutions to lend and absorb losses related to COVID-19, while still ensuring their continued resilience.

The ECB also made the following observations:

- in relation to capital buffers, if the common equity Tier 1 (CET1) ratio of credit institutions falls below the level of the combined buffer requirement, these credit institutions can distribute resources only within the limits of the maximum distributable amount. However, if earnings turn negative, distributions will be cancelled, irrespective of the size of the breach. The ECB comments that credit institutions might not be willing to use their buffers for additional lending because of concerns about the obligation to cancel additional Tier 1 (AT1) coupons. It comments that this behaviour would impair the intended beneficial effect of the buffer framework; and
- in relation to market risk, the volatility across financial markets caused by the pandemic has led to an increase in the value-at-risk risk metrics used to calculate own funds requirements for market risk for institutions using the internal model approach for market risk. This has caused an increase in the quantitative market risk multipliers reflecting the number of back-testing overshootings. The ECB calls for the CRR to be amended to allow competent authorities flexibility to disregard overshootings resulting from both actual and hypothetical losses in extraordinary circumstances.

ECB Opinion on proposed Regulation (2020/0066(COD)) amending the CRR in light of COVID-19 is [here](#).

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Climate-related and environmental risks - ECB consults on draft Guide

May 2020 - The ECB has published for consultation a draft Guide for banks on climate-related and environmental risks. The Guide outlines the ECB's understanding of the safe and prudent management of climate-related and environmental risks under the current prudential framework. It describes how the ECB expects institutions to consider climate-related and environmental risks - as drivers of established categories of prudential risks - when formulating and implementing their business strategy. It further explains how the ECB expects institutions to become more transparent by enhancing their climate-related and environmental disclosures.

The ECB states that the Guide is not binding, but rather serves as a basis for supervisory dialogue. Banks are expected to assess whether their current practices are safe and prudent in light of the supervisory expectations described in the Guide and, if necessary, to start adapting them. Moreover, as from end-2020, banks classed as significant institutions will be asked to inform the ECB of any divergences of their practices from these supervisory expectations.

The consultation period closes on 25 September 2020.

Draft ECB Guide on climate-related and environmental risks is [here](#).

FAQs are [here](#).

Webpage is [here](#).

Press release is [here](#).

ECB's May 2020 Financial Stability Review published

26 May 2020 - The ECB has published its bi-annual Financial Stability Review . This issue assesses how the financial system has performed during the COVID-19 pandemic, particularly in light of those financial vulnerabilities which were identified before the pandemic, including the functioning of the financial markets, debt sustainability, bank profitability and the non-bank financial sector. It also highlights more recent developments, including the potential impact of government loan guarantee schemes, bank dividend payout suspensions, bank and non-bank interlinkages, and the macroeconomic impact of financial policy measures.

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This issue of the Review also notes that a seizing-up of the financial system has been prevented as a result of the COVID-19 related monetary, fiscal and prudential policies, as well as the capital and liquidity positions of banks which have been improved since previous crises. However, it notes that Euro area banks still face significant challenges in the medium to long term.

Financial Stability Review, May 2020 is [here](#).
Press release is [here](#).

Please see the Single Supervisory Mechanism (SSM) section below for an item on ECB Regulation (EU) 2020/605 in relation to the reporting of supervisory financial information by banks under the SSM.

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NEWS FOR THE SINGLE SUPERVISORY MECHANISM (SSM)

Single Supervisory Mechanism - ECB amending Regulation on the reporting of supervisory financial information published in the Official Journal

7 May 2020 - ECB Regulation (EU) 2020/605, which amends ECB Regulation (EU) 2015/534 on the reporting of supervisory financial information by banks under the Single Supervisory Mechanism, has been published in the Official Journal of the European Union. ECB Regulation (EU) 2020/605 sets out reporting requirements for credit institutions and rules governing the submission of information by national competent authorities to the ECB. The ECB adopted the Regulation on 9 April 2020.

ECB Regulation (EU) 2020/605 will enter into force on 27 May 2020 and will apply from 1 June 2020.

Official Journal: ECB Regulation (EU) 2020/605 on the reporting of supervisory financial information under the Single Supervisory Mechanism is [here](#).

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NEWS FOR THE SINGLE RESOLUTION MECHANISM (SRM)

BRRD and SRM Regulation - SRB publishes consultation on its standardised valuation data set

May 2020 - The Single Resolution Board (SRB) has published a consultation on its standardised valuation data set to ensure that a minimum level of data is available to support a robust valuation for resolution. This supplements the SRB's Framework for Valuation, which was published in 2019. The aim of the Framework is to provide independent valuers with the SRB's expectations regarding the principles and methodologies for valuation reports required by the Bank Recovery and Resolution Directive (2014/59/EU) and the Single Resolution Mechanism Regulation (2014/806/EU).

The consultation period closes on 30 June 2020.

SRB consultation on its standardised valuation data set is [here](#).

Press release is [here](#).

MREL - SRB publishes final MREL policy

May 2020 - The SRB has published its final minimum requirement for own funds and eligible liabilities (MREL) policy following its consultation on proposed changes to the policy in February 2020. The SRB's MREL policy has been amended to bring the policy in line with amendments introduced by the 2019 EU banking package, including the fifth Capital Requirements Directive (EU) 2019/878, second Capital Requirements Regulation (EU) 2019/876, the second Bank Recovery and Resolution Directive (EU) 2019/879 and the second Single Resolution Mechanism Regulation (EU) 2019/877.

Among other things, the policy covers: (i) MREL requirements for global systemically important institutions; (ii) changes to the calibration of MREL, including introducing MREL based on the leverage ratio; (iii) changes to the quality of MREL (subordination); (iv) dedicated rules for certain business models, such as cooperatives, and for resolution strategies, such as multiple point of entry (MPE) resolution strategies; (v) provisions on internal MREL; and (vi) clarifications on third-country issuances.

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The new policy changes will be phased in by 2024, with intermediate targets set for 1 January 2022 and 2023. MREL decisions implementing the new framework will be taken based on this policy in the 2020 resolution planning cycle. These decisions will be communicated to banks in early 2021.

SRB final MREL policy is [here](#).

SRB feedback statement on its MREL policy consultation is [here](#).

Press release is [here](#).

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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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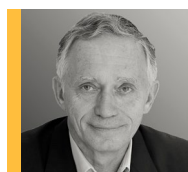
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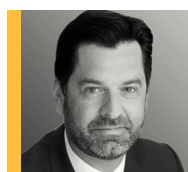
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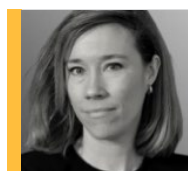
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