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{GOVERNANCE, INVESTIGATIONS, AUDIT}

23 FEBRUAR 2023

Weekly *Regulatory* Digest

Week 08/09 – 23 February to 1 March 2023

0. Overview

WRD # WRD23-08-09

Type	#Sort	Title	Key	IA	L2-S	#T
Regulation						**13**
	1	MAS Imposed Due Diligence Requirements for Corporate Finance Advisers	**Other**	**No**	06.2	1
	2	SEBI Consults on Holding of Sponsor in REITs and InvITs	**Other**	**No**	08.4	1
	3	CSRC Released the Revised Provisions on Confidentiality and Archives administration as a Supplement to CSRC Regulations on	**Other**	**No**	04.1	1
	4	BaFin consults for three Circulars on Suitability and Reliability Requirements for management and supervisory bodies in the in	**Other**	**No**	04.1	1
	5	BoE and FCA jointly issued PS on Changes to reporting requirements, procedures for data quality, and registration of TR unde	**Other**	**No**	14.2	1
	6	DFSA Consults on Cyber Risk management & Innovation Support	**Other**	**No**	15.0	1
	7	CBN Reviewed the Tenure of Executive Management and Non-Executive Directors of Deposit Money Banks in Nigeria	**Other**	**No**	04.1	1
	8	PRA consults on The Strong and Simple Framework: Liquidity and Disclosure Requirements for Simpler-regime Firms	**Other**	**No**	04.1	1
	9	PRA consults on Remuneration: Enhancing proportionality for small firms	**Other**	**No**	04.1	1
	10	EBA publishes a no-action letter on the boundary between the banking book and the trading book provisions	**Other**	**No**	14.2	1
	11	BNM Consults on an Exposure Draft on the Fair treatment of Vulnerable Consumers	**Other**	**No**	06.2	1
	12	OSFI released draft guideline, and launched a consultation on culture and behavior risks	**Other**	**No**	04.1	1
	13	FINMA published an ex-post evaluation report on the requirements for the recognition of value adjustments for default risks	**Other**	**No**	12.1	1
Standard						**14**
	14	ENISA published a Report on the Demand Side of Cyber Insurance in the EU	**Other**	**No**	15.0	1
	15	NIST Consults on NISTIR 8320D Hardware-Enabled Security: Hardware-Based Confidential Computing	**Other**	**No**	15.0	1
	16	FSB details actions for the next phase of the G20 Roadmap for Enhancing Cross-border Payments	**Other**	**No**	08.4	1
	17	CSSF warned or unpatched Microsoft Exchange vulnerabilities: 533 servers in Luxembourg need immediate attention	**Other**	**No**	15.0	1
	18	FATF published the outcome of its Plenary Meeting and released report on ML and TF financing in art	**Other**	**No**	05.1	1
	19	HKMA published Observations from the Review of the Selling Processes for Investment Products	**Other**	**No**	08.4	1
	20	AFM published an exploratory study on Cyber insurance: comparability requires the attention of insurers	**Other**	**No**	15.0	1
	21	IESBA Strengthens and Clarifies the Independence Requirements for Group Audits	**Other**	**No**	00.4	1
	22	AFM published an Exploratory study on IT Incident Management in Capital Markets	**Other**	**No**	15.0	1
	23	CPMI consults on ISO 20022 harmonization requirements for enhancing cross-border payments	**Other**	**No**	08.4	1
	24	ASIC published report on good practices for handling whistleblower disclosures	**Other**	**No**	04.4	1
	25	IIA published a new issue of Tone at the Top: Lingering Fraud Risks of the COVID-19 Pandemic	**Other**	**Yes**	00.3	1
	26	IIA Solicits Feedback on Proposed New Global Internal Audit Standards	**Key - IA**	**Yes**	00.3	1
	27	CIIA and Airmic released a new report on "Navigating geopolitical risk"	**Other**	**Yes**	00.3	1
Information						**20**
	28	CNMV Presented its 2023 Activity Plan	**Other**	**No**	00.2	1
	29	ACPR published its key areas on risk management and iS security for insurers	**Other**	**No**	15.0	1
	30	AMF informed on the application of the EU DLT Pilot Regime related to market infrastructures on blockchain	**Other**	**No**	04.1	1
	31	US Agencies issue joint statement on liquidity risks resulting from crypto-asset market vulnerabilities	**Other**	**No**	14.3	1
	32	FSI published a new Insight on holding bank executives accountable for misconduct	**Other**	**No**	04.1	1
	33	APRA re-issued the 2022 MySuper Heatmap publication	**Other**	**No**	08.4	1
	34	SARB published a Statement on its commitment to the fight against money laundering, the financing of terrorism, and prolife	**Other**	**No**	05.1	1
	35	US Agencies issue 2022 Shared National Credit Program review	**Other**	**No**	14.2	1
	36	APRA published an assessment of macroprudential settings	**Other**	**No**	00.1	1
	37	RBI Released a Compendium on Business Continuity Measures during the COVID-19 Pandemic	**Other**	**Yes**	11.3	1
	38	ACPR informed about the COLB Report on the National analysis of money laundering and terrorist financing risks in France	**Other**	**No**	05.1	1
	39	SRB published the MREL dashboard for the third quarter of 2022	**Other**	**No**	00.1	1
	40	BIS published the Quarterly Review, March 2023	**Other**	**No**	00.1	1
	41	IFAC, AICPA & CIMA released a report on "The State of Play: Sustainability Disclosure & Assurance"	**Other**	**No**	00.4	1
	42	BdI published a Guide to the credit quality data	**Other**	**No**	00.1	1
	43	BoE informed that the FSRI Forum released the sixth edition of the Regulatory Initiatives Grid	**Other**	**No**	00.2	1
	44	BCBS published the Basel III Monitoring Report	**Other**	**No**	00.2	1
	45	BdI published a paper on Open Banking in the payment system	**Other**	**No**	08.4	1
	46	ESRB published a paper on "Financial fragility in open-ended mutual funds: the role of liquidity management tools"	**Other**	**No**	08.5	1
	47	ESMA found that MCM had no measurable impact on financial markets under current market conditions	**Other**	**No**	14.1	1
Sub-Total						**47**

Note: The Flag "IA = Yes" indicates that the regulation/standard addresses explicitly the internal audit function

(To be continued…)

(… continued)

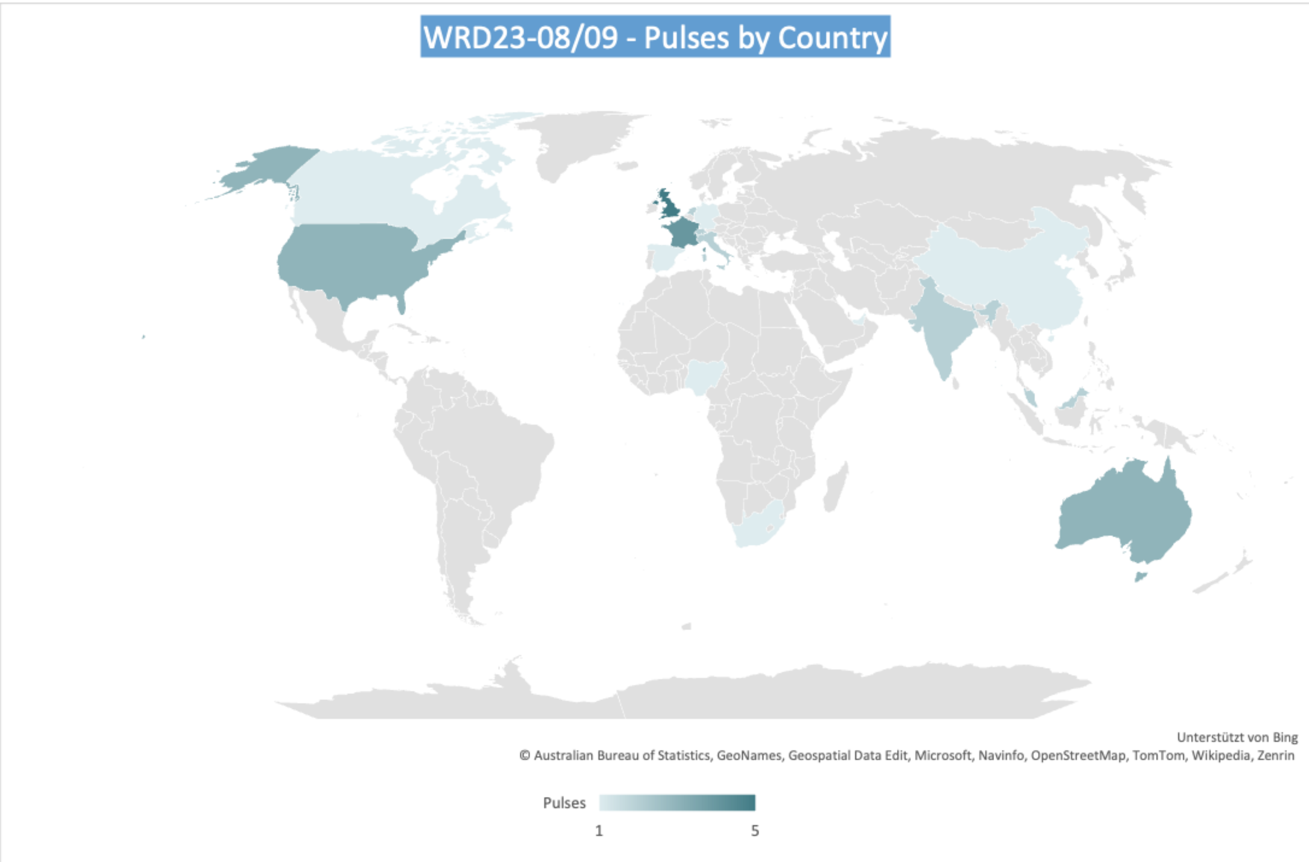
WRD # WRD23-08-09

Type	#Sort	Title	Key	IA	L2-S	#T
Enforcement						**2**
	48	ACPR Enforcement Committee sanctions and fines Axa Banque EUR 1m	**Other**	**No**	05.1	1
	49	FINMA concluded “Greensill” proceedings against Credit Suisse	**Other**	**No**	08.5	1
Event						**4**
	50	SC and SERC signed a MoU to Bolster Cooperation and Capacity Building	**Other**	**No**	00.2	1
	51	FSB invites senior representatives from firms and industry associations to join cross-border payment taskforce	**Other**	**No**	08.4	1
	52	FATF informed about the inaugural Learning and Developemnt Forum on Asset Targeting and Recovery	**Other**	**No**	05.1	1
	53	IFRS Foundation and FASF of Japan signed an MoU to extend support for the Foundation	**Other**	**No**	00.1	1
Sub-Total						**6**
Grand Total						**53**

Note: The Flag "IA = Yes" indicates that the regulation/standard addresses explicitly the internal audit function
Event: For information only, see cover e-mail; more details are available upon request.

WRD # WRD23-08-09 WRD23-08-09

	Type						Region					
Date	Regulation	Standard	Information	Enforcement	Event	Total	Americas	APAC	EMEA	CH & Li	Int'l	Total
23.02.2023	2	3	5		1	11	2	2	4		3	11
24.02.2023	5	2	3			10	1	2	6		1	10
27.02.2023	3	2	6	1		12		3	7		2	12
28.02.2023	2	2	3	1	2	10	1	2	2	1	4	10
01.03.2023	1	4	3		1	9			5	1	3	9
02.03.2023		1				1		1				1
Total	**13**	**14**	**20**	**2**	**4**	**53**	**4**	**10**	**24**	**2**	**13**	**53**



The world map excludes items published by the EU (5) and by international organizations (13)

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Content

1. Regulations

23.02.2023 6.2 Client-related Conflicts of Interest

☐ Key ☐ Key – IA ☐ IA

#1 MAS Imposed Due Diligence Requirements for Corporate Finance Advisers

The *Monetary Authority of Singapore* MAS issued a **Notice imposing mandatory baseline standards of due diligence and conduct requirements for** *corporate finance* **CF advisers**. These **requirements** raise the *standards of conduct* of CF advisers, improve the quality of disclosures, and allow investors to make informed decisions.

- CF advisers that assist entities in fundraising from the public will henceforth be *subject to* **mandatory minimum standards** *when conducting due diligence on CF transactions*.
- These include:
  - conducting *background checks and interviews* with relevant stakeholders;
  - conducting *site visits* of prospective issuers' key assets;
  - assessing knowledge, skills, and experience of third-party service providers; as well as
  - ensuring that material issues are satisfactorily resolved or clearly disclosed.
- CF advisers will also have to *comply with enhanced* **requirements** *to mitigate conflicts of interest*, such as where the adviser's related corporations or controlling shareholders also provide services to the same customer.
- Mr. Lim Tuang Lee, Assistant Managing Director (Capital Markets), MAS, said, "*Corporate finance advisers, through their work advising prospective issuers, enable investors to make informed decisions by facilitating adequate and accurate disclosures.*
  "*They play an important role in safeguarding investor interests and the integrity of our capital markets*."
- These **requirements** are set out in the **Notice on Business Conduct Requirements for Corporate Finance Advisers**. MAS has considered feedback received from the public consultation.

Policy / Final

Press Release: [HTML]
https://www.mas.gov.sg/news/media-releases/2023/mas-imposes-due-diligence-requirements-for-corporate-finance-advisers

Notice SFA 04-N21 on Business Conduct Requirements for Corporate Finance Advisers:
https://www.mas.gov.sg/-/media/mas-media-library/regulation/notices/cmg/notice-sfa-04-n21/cfnotice.pdf
17 pages

23.02.2023 08.4 Product and Service Shelf

☐ Key ☐ Key – IA ☐ IA

#2 SEBI Consults on Holding of Sponsor in REITs and InvITs

The *Securities and Exchange Board of India* SEBI published a *Consultation Paper* CP on **Holding of Sponsor in Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs)** to solicit public comments on the *proposal* to review respective norms to ensure the alignment of interests between the Sponsors and the unit holders.

- The Sponsor is responsible for setting up the REIT / InvIT and the formation transaction. The Sponsor plays a **key role** in the context of the *registration* of the REIT or InvIT, as registration is inter alia granted based on the eligibility conditions fulfilled by the Sponsor.
- Considering the importance of the Sponsor(s) and Manager / Investment Manager in REIT / InvIT, a **Working Group** was formed under the aegis of the *Hybrid Securities Advisory Committee* HySAC to evaluate the *roles and responsibilities* of the Sponsor(s) and Manager / Investment Manager.
- The Working Group submitted its reports on 9 November 2022 and 23 November 2022. The Working Group, in its report, **recommended** that REITs and InvITs are a *relatively new form of business organization* in India and hence currently, it is not advisable to have Sponsor-less REIT / InvIT and that there should be at least one Sponsor for the REIT / InvIT on an ongoing basis.
- SEBI felt that the **requirement** of at least one Sponsor fulfilling the necessity of alignment of interest could be addressed by *specifying a mandatory minimum unitholding by the Sponsor during the lifetime* of the REIT / InvIT (or till such other time as considered appropriate).
- Considering the same, there is a *need to review the mandatory minimum unit holding requirement by the Sponsor* of the REIT / InvIT. Further, the CP also *discusses the present regulatory* guidelines on the creation of encumbrance on locked-in units of the Sponsor and the need for a consequential review of the same in view of the review being undertaken of the regulatory provisions on unitholding requirements of the Sponsor.

Policy / Consultation: 8 March 2023

Consultation Paper on Holding of Sponsor in Real Estate Investment Trusts (REITs) and infrastructure Investment Trusts (InvITs)
https://www.sebi.gov.in/reports-and-statistics/reports/feb-2023/consultation-paper-on-holding-of-sponsor-in-reits-and-invits_68358.html
18 pages

24.02.2023 4.1 Corporate and Legal Entity Governance

☐ Key ☐ Key – IA ☐ IA

#3 CSRC Released the Revised Provisions on Confidentiality and Archives administration as a Supplement to CSRC Regulations on Filing-based Administration of Overseas Offering and Listing

The *China Securities Regulatory Commission* CSRC, the *Ministry of Finance of the People's Republic of China*, the *National Administration of State Secrets Protection*, and the *National Archives Administration of China* jointly revised the "**Provisions on Strengthening Confidentiality and Archives Administration for Overseas Securities Offering and Listing**" (Announcement No. 29 [2009]).

- The Revision aims to support *domestic companies' overseas securities offering and listing pursuant to laws and regulations*, as a **supplement** to the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies.
- The *revised* Provisions are issued under the title the **Provisions on Strengthening Confidentiality and Archives Administration of Overseas Securities Offering and Listing by Domestic Companies** and *will come into effect on* 31 March 2023 with the Trial Measures.
- Major revisions to the Provisions include:
  - (i) First, expanding its application to *cover both direct and indirect overseas offering and listing*, as is consistent with the Trial Measures.
  - (ii) Second, setting *clear guidance* to relevant entities regarding *confidentiality and archives administration* concerning overseas securities offering and listing.
  - (iii) Third, improving relevant arrangements to lay a *solid institutional foundation for secure and efficient cross-border regulatory cooperation*.
- Public comments have shown that the market welcomes the *revised* Provisions and recognizes that it will promote healthy and orderly development of such overseas listing activities.
- CSRC stays *committed to promoting high-level institutional opening-up of China's capital markets* and expanding the achievements from the cross-border regulatory cooperative mechanisms in place in a bid to *foster a sound regulatory environment* in support of companies' overseas listing activities in compliance with laws and regulations.

Policy / Final

Press Release: [HTML]
http://www.csrc.gov.cn/csrc_en/c102030/c7162676/content.shtml

CSRC Announcement [2023] No. 44 Provisions on Strengthening Confidentiality and Archives Administration of Overseas Securities Offering and Listing by Domestic Companies:
http://www.csrc.gov.cn/csrc_en/c102030/c7162676/7162676/files/CSRC%20Announcement%20[2023]%20No.%2044%20Provisions%20on%20Strengthening%20Confidentiality%20and%20Archives%20Administration%20of%20Overseas%20Securities%20Offering%20and%20Listing%20by%20Domestic%20Companies.pdf
9 pages

Revision Notes on the Provisions on Strengthening Confidentiality and Archives Administration of Overseas Securities Offering and Listing by Domestic Companies:
http://www.csrc.gov.cn/csrc_en/c102030/c7162676/7162676/files/Revision%20Notes%20on%20the%20Provisions%20on%20Strengthening%20Confidentialit%20and%20Archives%20Administration%20of%20Overseas%20Securities%20Offering%20and%20Listing%20by%20Domestic%20Companies.pdf
6 pages

24.02.2023 4.1 Corporate and Legal Entity Governance

☐ Key ☐ Key – IA ☐ IA

#4 BaFin consults for three Circulars on Suitability and Reliability Requirements for management and supervisory bodies in the insurance industry

The German *Federal Financial Supervisory Authority* BaFin launched a *consultation* on three circulars on the **professional suitability and reliability of members of management, members of administrative and supervisory bodies, and persons responsible for key tasks or acting on key tasks** in accordance with the German **Insurance Supervision Act** (**VAG**).

- The circulars **replace** the 2018 leaflets of the same name. They have been updated and moderately developed in terms of content.

Policy / Consultation: 31 March 2023

Press Release: [HTML]
https://www.bafin.de/SharedDocs/Veroeffentlichungen/DE/Meldung/2023/meldung_2023_02_24_Konsultation_RS_VA.html

Consultation 05/2023 - Circulars on the professional suitability and reliability of members of management, members of administrative and supervisory bodies and persons responsible for key tasks or acting on key tasks, pursuant to the Insurance Supervision Act (VAG): [HTML]
https://www.bafin.de/SharedDocs/Veroeffentlichungen/DE/Konsultation/2023/kon_05_23_Konsultation_Rundschreiben_fachliche_Eignung_und_Zuverlaessigkeit.html

24.02.2023 14.2 Credit Risk Control Framework

☐ Key ☐ Key – IA ☐ IA

#5 BoE and FCA jointly issued PS on Changes to reporting requirements, procedures for data quality, and registration of TR under UK EMIR

The *Bank of England* BoE and the UK *Financial Conduct Authority* FCA published a *joint Policy Statement* PS on **Changes to reporting requirements, procedures for data quality, and registration of Trade Repositories TR under UK EMIR**.

- The PS sets out the authorities' *final amendments* to *Technical Standards* TS and *new* **rules** for TR in relation to the *derivatives reporting framework* under UK EMIR.
- The *revised* rules aim to ensure a more globally consistent dataset, where appropriate, to enable authorities to *better monitor for systemic and financial stability risk*.
- They look to improve data quality, provide clarity to counterparties where required and streamline the registration process for TRs.

- This PS will *primarily affect*:
  - counterparties in the scope of the reporting requirements under UK EMIR
  - TRs registered, or recognized, under UK EMIR
  - third party service providers who offer reporting services to counterparties subject to UK reporting under EMIR
- It may also be of interest to *trade associations*, *law firms*, and *consultancy firms* and be relevant to authorities in other G20 jurisdictions who are implementing or considering similar changes to their derivatives reporting regimes.
- The **requirements** set out in this PS will *come into effect on* 30 September 2024.

Policy / Final

Press Release: [HTML]
https://www.bankofengland.co.uk/paper/2023/ps/changes-to-reporting-requirements-procedures

Policy Statement PS 23/2 – Changes to reporting requirements, procedures for data quality, and registration of Trade Repositories under UK EMIR – feedback on CP 21/31 and our final rules and guidance:
https://www.bankofengland.co.uk/-/media/boe/files/financial-stability/financial-market-infrastructure-supervision/ps232-changes-to-reporting-requirements.pdf
190 pages

24.02.2023 15.0 Technology Failure or Disruption

☐ Key ☐ Key – IA ☐ IA

#6 DFSA Consults on Cyber Risk management & Innovation Support

The UAE *Dubai Financial Services Authority* DFSA published a Notice of Consultation Paper Release for Consultation Paper No. 147 – **Cyber Risk Management & Innovation Support**. With the increased use of technology in finance, along with the prevalence of associated risks, *DFSA seeks public comments on* *two* areas where technology is highly relevant: (i) *cyber risk management requirements* for regulated firms and (ii) proposals relating to the *DFSA's role in supporting innovation* in financial services.

- The financial services industry is one of the areas most targeted by cybercriminals for several reasons, which include potential access to millions of customers' data and a potential source for immediate proceeds.
- The industry's *vulnerability* to cybercrime is explained by the fact that firms are utilizing *complex IT infrastructures*, which provide multiple access points for cyber penetration through, for example, external gateways, customer interfaces, cloud computing, and application programming interfaces.
- The varied success with which individual firms have been able to *build cyber resilience* has created only a sub-optimal shield for the industry due to *interconnectedness and interdependence* on shared services and outsourced arrangements.
- Therefore, the *level of cyber resilience in this industry will not be adequate* unless all players, big and small, have built strong shields at an individual level.
- The *proposed* Rules and guidance do not include additional requirements over and beyond the scope and depth of issues covered by the 2020 Cyber Risk management Guidelines.
- DFS' **proposals** remain *focused on the management of cyber risk* and **do not extend** to issues related to the *sufficiency of technology resources and operational resilience*.
- Regulated firms should continue complying with existing technology and operational requirements in the Rulebook that are applicable to them.

Policy / Consultation: 25 April 2023

Consultation Paper No. 147 – Technology: Cyber Risk Management and Innovation Support: [HTML: landing page with access to the CP and the 5 Appendices]
https://dfsaen.thomsonreuters.com/rulebook/consultation-paper-no-147-technology-cyber-risk-management-and-innovation-support

Consultation Paper No. 147 – Technology: Cyber Risk management and Innovation Support:
https://dfsaen.thomsonreuters.com/sites/default/files/net_file_store/CP147_Cyber_Risk_and_Innovation_Support.pdf
19 pages

24.02.2023 4.1 Corporate and Legal Entity Governance

☐ Key ☐ Key – IA ☐ IA

#7 CBN Reviewed the Tenure of Executive Management and Non-Executive Directors of Deposit Money Banks in Nigeria

The *Central Bank of Nigeria* CBN published a Circular on the **Review of the Tenure of Executive management and Non-Executive Directors of** *Deposit Money Banks* **DMBs in Nigeria**. CBN *revised* the **regulatory requirements** as part of measures aimed at *strengthening governance practices* in the banking industry.

- Consequently, the *following* **tenure requirements** will apply, effective the Circular's date:
  - (i) The tenure of *Executive Directors* EDs, *Deputy Managing Directors* DMDs, and *Managing Directors* MDs shall be in accordance with the terms of their engagement approved by the Board of Directors of banks, subject to a *maximum tenure* of 10 years.
  - (ii) Where an Executive who is a DMD becomes the MD / CEO of a bank or any other DMB before the end of his / her maximum tenure, the *cumulative tenure* of such Executive *shall not exceed* 12 years.
  - (iii) However, for an Executive (ED) who becomes a DMD of a bank or any other DMB, his / her *cumulative tenure* as ED and DMD shall *not exceed* 10 years.
  - (iv) *Non-Executive Directors* NEDs, except for *Independent Non-Executive Directors* INED, shall serve for a *maximum period of* 12 years in a bank, broken into *three terms of four years each*.
  - (v) EDs, DMDs, and MDs who exit from the Board of a bank either upon or prior to the expiration of his / her maximum tenure shall serve out a *cooling-off period of* 1 year before being eligible for appointment as a NED to the Board of Directors.
  - (vi) NEDs who exit from the Board of a bank either upon or prior to the expiration of his / her shall serve out *a cooling-off period of* 1 year before being eligible for appointment to the Board of Directors of any other DMB.

(vii) The **cumulative tenure limit** of EDs, DMDs, MDs, and NEDs across the banking industry *is* 20 years.

Policy / Final

Circular to all Deposit Money Banks, FPR/DIR/PUB/CIR/001/070, Review of Tenure of Executive Management and Non-Executive Directors of Deposit Money Banks in Nigeria:
https://www.cbn.gov.ng/Out/2023/FPRD/CIRCULAR%20-Review%20of%20Tenure%20of%20Exec%20Mgmnt%20%20Non-Exec%20Mgmnt%20of%20DMBs%20February%202023.pdf
1 page

27.02.2023 4.1 Corporate and Legal Entity Governance

☐ Key ☐ Key – IA ☐ IA

#8 PRA consults on The Strong and Simple Framework: Liquidity and Disclosure Requirements for Simpler-regime Firms

The UK *Prudential Regulation Authority* PRA published a *Consultation Paper* CP on "**The Strong and Simple Framework: Liquidity and Disclosure Requirements for Simpler-regime Firms**". The CP sets out the *first phase* of the PRA's *proposed simplifications* to the prudential framework that should apply to Simpler-regime Firms.

- As set out in CP 5/22 – 'The Strong and Simple Framework: a definition of a Simpler-regime Firm' and *Discussion Paper* DP 1/21 – A strong and simple prudential framework for non-systemic banks and building societies, PRA seeks to mitigate the "complexity problem" that can arise for smaller banks and building societies.
- This occurs when the same prudential requirements are applied to all firms, but the costs of understanding, interpreting, and operationalizing those requirements are higher relative to the associated public policy benefits for smaller firms than for larger firms.
- PRA's 'strong and simple' initiative seeks to *simplify the prudential framework for small, domestic banks and building societies* while maintaining their resilience and reducing barriers to growth.
- Since this would cause a *major change* in prudential policy applying to banks and building societies ('firms') in the UK and is likely to take several years to develop and implement, PRA intends to *implement it in stages*.
- PRA started by developing a 'simpler regime' for the smallest firms. CP 16/22 – Implementation of the Basel 3.1 Standards sets out the proposed criteria that small firms should meet to qualify for the simpler regime.
- PRA **proposes** to split the development of the simpler regime into *two phases*:
  - Phase 1 is focused on non-capital-related prudential measures; and
  - Phase 2 is focused on capital-related prudential measures
- This CP sets out the **first phase** of proposed simplifications that would apply to Simpler-regime Firms. These **proposals** consist of the following:
  - new liquidity requirements for the application of the *net stable funding ratio* NSFR;
  - revisions to the application of Pillar 2 liquidity add-ons;
  - a new, streamlined *Internal Liquidity Adequacy Assessment Process* ILAAP template;
  - the removal of certain liquidity reporting templates;
  - *new* Pillar 3 disclosure requirements for Simpler-regime Firms; and
  - simplifications to certain proportionality approach currently applicable in the PRA Rulebook.

Policy / Consultation: 30 May 2023

CP 4/23 – The Strong and Simple Framework: Liquidity and Disclosure Requirements for Simpler-regime Firms: [HTML]
https://www.bankofengland.co.uk/prudential-regulation/publication/2023/february/strong-and-simple-framework

27.02.2023 4.1 Corporate and Legal Entity Governance

☐ Key ☐ Key – IA ☐ IA

#9 PRA consults on Remuneration: Enhancing proportionality for small firms

The UK *Prudential Regulation Authority* PRA published a *Consultation Paper* CP on "**Remuneration: Enhancing proportionality for small firms**". The CP sets out proposed *changes to the current rules and expectations* to enhance the proportionality of the *remuneration requirements* which apply to *small* CRR firms and *small third-country* CRR firms.

- The **proposals** in the CP would result in:
  - changes to the Remuneration Part of the PRA Rulebook (Appendix 1 to the CP); and
  - updates to *Supervisory Statement* SS 2/17 – 'Remuneration' (Appendix 2 to the CP).
- The **policy proposals** included in this CP would:
  - define small firms in line with the proposed Simpler-regime size threshold, and with refer*ence to selected other* Simpler-regime *criteria under the* 'Strong and Simple' framework;
  - remove the requirement for small firms, as defined in this CP, to apply rules on malus, clawback, and buyouts; and
  - provide clarity on how disclosure requirements apply for all proportionality levels.
- PRA's **proposals** aim to *increase the proportionality of the remuneration regime* by reducing the regulatory burden on small firms to a level more appropriate to the benefits arising from lowering risks to these firms' safety and soundness and to the UK financial system.
- PRA considers that risks to safety and soundness for the proposed firms in scope can be mitigated sufficiently by other remuneration rules that the PRA is not proposing to modify.

Policy / Consultation: 30 May 2023

CP 5/23 – Remuneration: Enhancing proportionality for small firms: [HTML: landing page with access to the two Appendices]
https://www.bankofengland.co.uk/prudential-regulation/publication/2023/february/remuneration-enhancing-proportionality-for-small-firms

27.02.2023 14.2 Credit Risk Control Framework

☐ Key ☐ Key – IA ☐ IA

#10 EBA publishes a no-action letter on the boundary between the banking book and the trading book provisions

The *European Banking Authority* EBA published a **no-action letter stating that competent authorities should not prioritize any supervisory or enforcement action in relation to the new banking book – trading book boundary provisions**.

- The amendments to the *Capital Requirements Regulation* (**CRR2**) introduced certain *elements of the* Basel standards on the trading book / non-trading book boundary framework, which will enter into application as of 28 June 2023.
- As part of the *ongoing legislative process* amending **CRR2**, both the Council and the Parliament, in their respective positions, *proposed to postpone the application date* of the boundary provisions to 1 January 2025.
- However, the legislators' effort to postpone the application date of the boundary provisions is void if the legislative process ends after 28 June 2023.
- The *front-loaded application* of the boundary provisions compared to the rest of the *Fundamental Review of the Trading Book* FRTB framework creates *several significant operational issues*:
  - (i) First, institutions would be subject to an *operationally complex and fragmented two-step implementation* of the boundary framework.
  - (ii) Second, they would be subject to an *operationally burdensome and costly fragmented application* of the rules for the reclassification of positions and internal-risk transfer between the trading and non-trading books.
  - (iii) Third, there are *no jurisdictions at the global level that envisaged such a two-step implementation* of the boundary and internal risk transfer frameworks. This would de-facto lead *global institutions to be subject to very different regulatory requirements* depending on where the risk management is performed, leading to fragmentation in the regulatory framework and, hence, in the financial markets, as well as potential unlevel playing field issues.
- Considering the positions recently adopted by the legislators, and to *alleviate the operational burden* that institutions would face with such a two-step implementation, EBA published an **opinion stating that competent authorities should not prioritise any supervisory or enforcement action in relation to the new banking book – trading book boundary provisions**.

Policy / Final

Press Release: [HTML]
https://www.eba.europa.eu/eba-publishes-letter-boundary-between-banking-book-and-trading-book-provisions

Opinion on the application of the provisions relating to the boundary between trading book and banking book:
https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Opinions/2023/1052168/%28EBA-OP-2023-02%20%29%20Opinion%20on%20the%20application%20of%20the%20new%20boundary%20provisions.pdf
4 pages

EBA letter to John Berrigan, DG FISMA, on the Opinion its on the application of the new banking book-trading book boundary framework:
https://www.eba.europa.eu/sites/default/documents/files/document_library/About%20Us/Missions%20and%20tasks/Correspondence%20with%20EU%20institutions/2023/1052169/Letter%20to%20John%20Berrigan%20on%20the%20EBA%20opinion%20on%20the%20application%20of%20the%20new%20boundary%20framework.pdf
2 pages

28.02.2023 6.2 Client-related Conflicts of Interest

☐ Key ☐ Key – IA ☐ IA

#11 BNM Consults on an Exposure Draft on the Fair treatment of Vulnerable Consumers

Bank Negara Malaysia BNM, the Central Bank of Malaysia, published an exposure draft on the **fair treatment of vulnerable consumers**, setting out *proposed requirements and guidance* to *promote a culture* where financial service providers properly consider and respond to the needs of vulnerable consumers, consistent with fair treatment outcomes.

- BNM invites feedback on this exposure draft, including suggestions for specific issues or areas to be clarified and any alternative proposals BNM should consider.

Policy / Consultation: 14 April 2023

Press Release: [HTML]
https://www.bnm.gov.my/-/ed-ftvc

Fair Treatment of Vulnerable Consumers – Exposure Draft:
https://www.bnm.gov.my/documents/20124/938039/28230228_ED_Fair_Treatment_of_Vulnerable_Consumers.pdf
18 pages

28.02.2023 4.1 Corporate and Legal Entity Governance

☐ Key ☐ Key – IA ☐ IA

#12 OSFI released draft guideline, and launched a consultation on culture and behavior risks

The Canadian *Office of the Superintendent of Financial Institutions* OSFI released a *draft* **Culture and Behavior Risk Guideline** for consultation. The *draft* Risk Guideline was developed considering the feedback to OSFI's March 2022 Culture Risk Management Letter and is clearer with *defined terminology* that improves on the approach proposed in 2022.

- The Guideline contains *principles-based* **expectations** on defining, developing, and overseeing culture and managing behavior risks.
- OSFI will provide a *self-assessment tool* with the *final* Guideline to help *Federally Regulated Financial Institutions* FRFIs review the design and effectiveness of their practices and further support compliance with the Guideline.
- The *draft* Culture and Behavior Risk Guideline complements OSFI's existing guidance, including the Corporate Governance Guideline.

Policy / Consultation: 31 May 2023

Press Release: [HTML-]
http://www.osfi-bsif.gc.ca/Eng/osfi-bsif/med/Pages/cbrsk20230228-nr.aspx

Cover Letter: [HTML]
http://www.osfi-bsif.gc.ca/Eng/fi-if/rg-ro/gdn-ort/gl-ld/Pages/cbrsk_dft-let.aspx

Culture and Behavior Risk Guideline: [HTML|
http://www.osfi-bsif.gc.ca/Eng/fi-if/rg-ro/gdn-ort/gl-ld/Pages/cbrsk_dft.aspx

1.03.2023 12.1 Valuations

☐ Key ☐ Key – IA ☐ IA

#13 FINMA published an ex-post evaluation report on the requirements for the recognition of value adjustments for default risks on non-impaired loans

The Swiss *Financial Market Supervisory Authority* FINMA publishes its **ex-post evaluation report on the requirements for the recognition of value adjustments for default risks on non-impaired loans**. Overall, FINMA *does not see any need to adjust the requirements*. These *appear to be effective* and have led to an *increase in the corresponding value adjustments* on non-impaired loans of CHF 1.9bn since their introduction.

- FINMA notes that since 1 January 2020, **new requirements** have applied to the *recognition of value adjustments for default risks on non-impaired loans*.
- FINMA carried out an ex-post evaluation on these requirements in 2022, which are stipulated in the FINMA Accounting Ordinance (**FINMA-AO**) and FINMA Circular 2020/1 "Accounting – banks".
- For this purpose, FINMA conducted its own detailed analyses as well as roundtables with industry representatives and experts and received various feedback.
- Based on this, FINMA reviewed the necessity, appropriateness, and effectiveness of the new requirements.

New requirements lead to an increase in value adjustments

- FINMA *considers the new requirements to be effective* in its ex-post evaluation report. The report is available in German and French. The banks are recognizing value adjustments for default risks at an earlier stage due to the new requirements.
- In the period from 2019 to 2021, value adjustments for default risks on non-impaired loans *increased by a total of* CHF 1.9 billion.
- FINMA assumes that the *new requirements will be able to dampen procyclical effects*, especially in *common equity tier 1* CET 1 capital because *banks will be able to recognize corresponding value adjustments earlier* and use them in a crisis situation. Overall, *FINMA does not see any need to adjust the new requirements based on the results of the* ex-post evaluation.

Methodological freedom and disclosure remain in focus

- For its part, the industry is clearly in favor of retaining the extensive freedom of method on how to determine the value adjustments, which is mainly granted in the approach to inherent default risks. The *freedom of method,* by its very nature, leads to great heterogeneity *in implementation*.
- FINMA, therefore, *calls on the banks to periodically review their methods and the parameters used in the process*. This is especially true for banks with relatively low amounts of value adjustments.
- FINMA has *identified deficiencies* in the disclosures relating to value adjustments.
  - On the one hand, this concerns the disclosure of how value adjustments are to be used in a crisis and by when they are to be replenished.
  - On the other hand, there are *deficiencies in the explanations* of the methods and data used and the assumptions made. The *quality of disclosure* is of great importance, especially against the background of the extensive freedom of methods mentioned above.
- FINMA, therefore, *calls on banks and audit firms* to *critically review the disclosures* and make improvements where necessary.
- FINMA will continue to *closely monitor* the development of value adjustments, and in particular, the issue of low amounts of value adjustments because of methodological freedom, as part of its supervisory activities. The same applies to the question of the adequacy of disclosure.

Policy / Final

Press Release:
https://www.finma.ch/en/~/media/finma/dokumente/dokumentencenter/8news/medienmitteilungen/2023/03/20230301-mm-ex-post-eb-rechnungslegung.pdf
2 pages

Ex-post-Evaluationsbericht: Bericht über die Ergebnisse der Ex-post-Evaluation zu den Bestimmungen zur Bildung von Wertberichtigungen für Ausfall- risiken auf nicht gefährdeten Forderungen (Rechnungsle- gungsverordnung-FINMA, FINMA-Rundschreiben 2020/1 „Rechnungslegung – Banken")
https://www.finma.ch/en/~/media/finma/dokumente/dokumentencenter/myfinma/ex-post-evaluation/20230103-rechnungslegung/20230301_expostevaluationsbericht_rechnungslegung.pdf?sc_lang=en&hash=3A2ACE8B7576B1B07F4218E5C3A94079
18 pages

2. Standards

23.02.2023 15.0 Technology Failure or Disruption

☐ Key ☐ Key – IA ☐ IA

#14 ENISA published a Report on the Demand Side of Cyber Insurance in the EU

The *European Union Agency for Cybersecurity* ENISA published a new report on the "**Demand Side of Cyber Insurance in the EU**" which explores the *challenges* faced by Operators of Essential Services in the EU, when seeking to acquire cyber insurance.

- Focused on the *potential challenges* faced by *Operators of Essential Services* OESs, the analysis performed also explores *aspects of cyber insurance from a policy development perspective* and suggests **recommendations** to policymakers and to the community of OESs.
- With the current *trend of increasing cyber incidents* also affecting OESs to a large extent, a majority of them perceive cyber insurance as a service they cannot afford, given the *outstanding premiums* and *disadvantageous coverage*.
- According to data gathered through a survey targeting 262 OESs across the EU, *three in four do not currently have cyber insurance coverage*. The survey also reveals that other risk mitigation strategies are often considered more favorable by OESs.
  - For 77% of respondents, a formalized process has been set to identify cyber risks. The remaining 23% do not have any such process in place.
  - On the other hand, 64% of organizations declare not quantifying cyber risks. However, all interviewed contributors declare having risk-management practices in place and a process to determine controls.
  - The motivators behind the decision to contract insurance coverage include coverage in case of a loss as a result of a cyber incident for 46%, requirement by law for 19%, and pre-incident or post-incident expert knowledge from insurance companies.
  - 56% of respondents declared they considered other risk mitigation tools more effective than cyber insurance.
- ENISA proposed the following **recommendations** to policy makers:
  - Implement guidance mechanisms to improve maturity of risk management practices of OESs;
  - Promote the establishment of frameworks to identify and exchange good practices among OESs, specially related to identification, mitigation and quantification of risk exposure;
  - Encourage initiatives, including standardization and guidance development, to provide assessment methodologies on the quantification of cyber risks;
  - Develop collaborative frameworks with public and private partners to enable skills frameworks and programs for cyber insurance, particularly in areas such as risk assessment, legal aspects, information management and cyber insurance market dynamics.
- ENISA proposed the following **recommendations** to OESs:
  - Make progress towards the maturity of risk management practices;
  - allocate or increase the budget to implement processes on the identification of assets, key metrics, conduct periodic risk assessments, security controls identification and quantification of risks based on industry best practices;
  - Improve knowledge transfer and sharing with other OESs.

Standards / Final

Press Release: [HTML]
https://www.enisa.europa.eu/news/cyber-insurance-fitting-the-needs-of-operators-of-essential-services/

Demand Side of Cyber Insurance in the EU:
https://www.enisa.europa.eu/publications/demand-side-of-cyber-insurance-in-the-eu/@@download/fullReport
58 pages

23.02.2023 15.0 Technology Failure or Disruption

☐ Key ☐ Key – IA ☐ IA

#15 NIST Consults on NISTIR 8320D Hardware-Enabled Security: Hardware-Based Confidential Computing

The US *National Institute of Standards and Technology* NIST published an Interagency Report NISTIR 8320D on **Hardware Enabled Security: Hardware-Based Confidential Computing** for public comments. NIST notes that organizations employ a *growing volume of machine identities*, often numbering in the thousands or millions per organization.

- Machine identities, such as secret cryptographic keys, can be used to identify which policies need to be enforced for each machine. *Centralized management of machine identities* helps streamline policy implementation across devices, workloads, and environments.
- However, the *lack of protection for sensitive data in use* (e.g., machine identities in memory) *puts it at risk*.
- This report presents an *effective approach* for overcoming security challenges associated with creating, managing, and protecting machine identities throughout their lifecycle.
- The report describes a **prototype** of a *proof-of-concept implementation* that addresses those challenges using hardware-based confidential computing.
- The report is intended to be a blueprint or template for the general security community to validate and utilize the described implementation.

Standards / Consultation: 10 April 2023

Press Release: [HTML]
https://csrc.nist.gov/publications/detail/nistir/8320d/draft

NIST Interagency Report NISTIR 8320D ipd, Hardware Enabled Security: Hardware-Based Confidential Computing:
https://nvlpubs.nist.gov/nistpubs/ir/2023/NIST.IR.8320D.ipd.pdf
29 pages

23.023.2023 8,4 Product and Service Shelf

☐ Key ☐ Key – IA ☐ IA

#16 FSB details actions for the next phase of the G20 Roadmap for Enhancing Cross-border Payments

The *Financial Stability Board* FSB published a report setting out **priority actions for achieving the G20 targets for enhancing cross-border payments**. The report has been delivered to G20 Finance Ministers and Central Bank Governors for their meeting on 24-25 February 2023.

- The report synthesizes the **lessons learned** during the first two years of the Roadmap for Enhancing Cross-border Payments, including feedback from stakeholders.
- The report **focuses** on the next phase of work on *three interrelated priority themes*:
  - (i) Payment system interoperability and extension. This focuses on the *extension of* RTGS *operating hours* and access policies and improving payment system interoperability.
    Interlinking arrangements for payment systems allow banks and other payment service providers to transact with each other without requiring them to participate in the same payment system or use intermediaries.
    Actions include: (i) convening a forum for central banks to exchange practices, (ii) fostering fast payment systems interlinking across borders; and (iii) finalizing requirements for cross-border payment service level agreements.
  - (ii) Legal, regulatory and supervisory finalizing frameworks. This focuses on the promotion of an *efficient legal, regulatory, and supervisory environment* for cross-border payments while maintaining their safety, security, and integrity.
    Actions aim to: (i) improve consistency of bank and non-bank regulation and supervision; (ii) enhance information provided to end-users; and (iii) update the application of *Anti-Money Laundering/Combating the Financing of Terrorism* AML / CFT rules.
  - (iii) Cross-border data exchange and message standards. This focuses on *facilitating cross-border data exchange* and *increasing the use of standardized messaging formats* for cross-border payments.
    Actions include: (i) enhancing the interaction between data frameworks and cross-border payments;
    (ii) finalizing ISO 20022 harmonization requirements and promoting their real-world implementation;
    (iii) improving API harmonization for cross-border payments use; and (iv) exploring enhanced use of the *legal entity identifier* LEI in cross-border payments.
- Successfully implementing these changes will require wider collaboration. FSB and BIS' *Committee on Payments and Market Infrastructures* CPMI will convene two *industry task forces* to facilitate this.
- The *International Monetary Fund* IMF and World Bank will also provide technical assistance to jurisdictions beyond the G20 to help take forward the priority themes.

Standards / Final

Press Release: [HTML]
https://www.fsb.org/2023/02/fsb-details-actions-for-the-next-phase-of-the-g20-roadmap-for-enhancing-cross-border-payments/

G20 Roadmap for Enhancing Cross-border Payments: Priority actions for achieving the G20 targets:
https://www.fsb.org/wp-content/uploads/P230223.pdf
17 pages

24.02.2023 15.0 Technology Failure or Disruption

☐ Key ☐ Key – IA ☐ IA

#17 CSSF warned or unpatched Microsoft Exchange vulnerabilities: 533 servers in Luxembourg need immediate attention

The Luxembourg *Commission de Surveillance du Secteur Financier* CSSF published a Communiqué announcing that the Luxembourg House of Cybersecurity informed CSSF of an **important cyber-security alert that has been issued by the** *Computer Incident Center Luxembourg* **CIRCL**.

- CIRCL published a *Technical Report* TR 72 "**Vulnerable Microsoft Exchange server metrics leading to alarming situation**". CSSF provided a *summary* of the situation together with the *corresponding* **recommendations** for actions to be taken:
- CIRCL identified a significant number of Microsoft Exchange serv§ers (533 in total) that are *left unmaintained* when it comes to patching them with the latest security updates.
  - What are the risks for your organization?
    - a potential compromise of the server
    - accessing of private, confidential and/or business-related data by third parties
    - unwanted modification or deletion of data
    - exfiltration of data
    - lateral movement and infection of other parts of the infrastructure
    - financial loss through blackmailing
    - productivity and financial loss by re-installing the infrastructure
    - reputation loss
  - What can you do as an organization?
    - *If institutions are running their own infrastructure*: manually these should check if the currently running version is the most recent; if not, upgrades should be applied.
    - *If institutions have a service provider* that is supposed to take care of the security updates: these should be asked to report the installed version and the most recent version available.
    - If there's a *discrepancy*, institutions should insist on the upgrade. Institutions should ask for monthly status and should review current contracts if necessary.

Standards / Final

CSSF Communiqué: [HTML]
https://www.cssf.lu/en/2023/02/unpatched-microsoft-exchange-vulnerabilities/

TR-72 - Vulnerable Microsoft Exchange server metrics leading to an alarming situation: [HTML]
https://www.circl.lu/pub/tr-72/

FATF **24.02.2023** 05.1 AML / KYC

☐ Key ☐ Key – IA ☐ IA

#18 FATF published the outcome of its Plenary Meeting and released report on ML and TF financing in art

The *Financial Action Task Force* FATF published the **Outcome of the FATF Plenary Meeting,** which took place in Paris under the Presidency of Singapore. FATF also released a **report on money laundering and terrorist financing in the art and antiquities market**.

- FATF noted that *one year after* the Russian Federation's illegal, unprovoked, and unjustified full-scale military invasion of Ukraine, FATF *reiterates its deepest sympathies to the people of Ukraine* for the needless loss of life and destruction of Ukrainian infrastructure and society.
- Following the statements issued in March 2022, FATF reiterates that *all jurisdictions should be vigilant to current and emerging risks from the circumvention of measures taken against the* Russian Federation to protect the international financial system.
- FATF members took *important steps* to enhance the **transparency of beneficial ownership** and prevent criminals from hiding illicit activity behind opaque corporate structures.
- In a *major milestone*, FATF agreed on *revisions* to Recommendation 25 on **transparency and beneficial ownership of legal arrangements**.
- Delegates also agreed on new guidance which will help countries and the private sector implement FATF's *strengthened* **requirements** on Recommendation 24 on **transparency and beneficial ownership of legal persons**.
- Delegates further agreed on an **action plan** to drive timely *global implementation* of FATF standards relating to virtual assets (also termed crypto assets) globally, including the transmission of originator and beneficiary information.
- FATF members *approved* a **report on disrupting the financial flows relating to ransomware**; the report will be published in March 2023 and includes a list of risk indicators that can help public and private sector entities identify suspicious activities related to ransomware.
- FATF members were updated on **other ongoing work**, including a *project on the misuse of citizenship and residency* by investment schemes, as well as *work to strengthen asset recovery* and *potential revisions of Recommendations 4 and 38* relating to *confiscation and provisional measures and on mutual legal assistance: freezing and confiscation*, respectively.
- The Plenary also agreed on the *publication of the* **report on money laundering and terrorist financing in the art and antiquities market**. The trade in *high-value works of art and antiquities* can attract criminals who seek to exploit the sector's history of privacy and the use of third-party intermediaries to launder the proceeds from drug trafficking, corruption, and other crimes.
- The Plenary also agreed to *undertake new projects* on money laundering and terrorist financing related to *cyber-enabled fraud* and on the *use of crowdfunding for terrorist financing*.

Standards / Final

Press Release: [HTML]
https://www.fatf-gafi.org/en/publications/Fatfgeneral/outcomes-fatf-plenary-february-2023.html

FATF suspends membership of the Russian Federation: [HTML]
https://www.fatf-gafi.org/en/publications/Fatfgeneral/fatf-statement-russian-federation.html

Jurisdictions under Increased Monitoring: [HTML]
https://www.fatf-gafi.org/en/publications/High-risk-and-other-monitored-jurisdictions/Increased-monitoring-february-2023.html

High-Risk Jurisdictions subject to a Call for Action:[HTML]
https://www.fatf-gafi.org/en/publications/High-risk-and-other-monitored-jurisdictions/Call-for-action-February-2023.html

Money Laundering and Terrorist Financing in the Art and Antiquities Market:
https://www.fatf-gafi.org/content/dam/fatf-gafi/reports/Money-Laundering-Terrorist-Financing-Art-Antiquities-Market.pdf.coredownload.pdf
60 pages

27.02.2023 8.4 Product and Service Shelf

☐ Key ☐ Key – IA ☐ IA

#19 HKMA published Observations from the Review of the Selling Processes for Investment Products

The *Hong Kong Monetary Authority* HKMA addressed a Circular letter to the *Chief Executive* of all *Registered Institutions* RIs to share with them **observations noted from the review on the selling processes of investment products of selected RIs**, *covering both retail banks and private banks*.

- From this review, HKMA noted some **misunderstandings** of RIs on the regulatory standards that may have lengthened their investment product selling processes.
- The Circular shares the **observations** alongside the relevant *regulatory standards*, including the flexibility already allowed, on:
  - product risk disclosure,
  - assessment of customer's investment horizon and concentration risk,
  - execution-only transactions, and
  - audio-recording of the selling processes.
- The key observations are exhibited in the **Annex** to the Circular letter.

- RIs have the flexibility to design their own investment product selling processes having regard to their business strategies, risk management and controls, so *long as such selling processes follow the applicable requirements and expected standards*.
- It is hoped that by sharing these observations and providing clarifications, this Circular can enhance understanding of the applicable requirements and standards expected of RIs.
- RIs are *encouraged to review their policies, procedures, and practices* in light of these observations and design proper and *reasonable measures and controls* so that the selling processes can be streamlined as appropriate and that customer experience can be enhanced while according protection to customers.
- RIs are also **reminded** to *provide adequate training and support* to staff *for the implementation of the measures and controls*.

Standards / Final

Circular letter Ref: B1/15C, G16/1C, Observations from Review of Selling Processes of Investment Products:
https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2023/20230227e1.pdf
2 pages

Annex: Key observations from review of selling processes of investment products:
https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2023/20230227e1a1.pdf
4 pages

27.02.2023 8.4 Product and Service Shelf

☐ Key ☐ Key – IA ☐ IA

#20 AFM published an exploratory study on Cyber insurance: comparability requires the attention of insurers

The Dutch *Authority for the Financial Markets* AFM released a report on "**Cyber insurance: exploration of the Dutch insurance market**". AFM notes that it is *difficult to compare cyber insurance products,* among other things, because of the *complexity of the risks and policy conditions*.

- The **sector** needs to make a *joint assessment* as to how it can *contribute to better comparability of the product range*. These are the main conclusions of the report into the growing market for cyber insurance.
- The *number of cyber risks*, such as ransomware attacks, has *risen sharply* in recent years. The market for business and private cyber insurance is expected to grow.
- In recent months, AFM conducted an exploratory study into this market. AMF's **conclusion** is that it is *difficult to compare cyber insurance products*. This is due to the complexity of the policy conditions, a lack of uniform definitions of key terms, and the fact that the working of certain coverages is not made fully explicit by insurers. Insurers do not have a shared taxonomy of cyber incidents.
- Cyber insurance is a complex product. Because the cyber risk is changeable, the insurance must be adaptable. This makes it even more important that clear information is provided.
- Ensuring better comparability of the cover and functioning of these products can be conducive to this. This will enable customers and advisers to ensure that the right risks are covered today and in the future and to avoid disappointments that could have been foreseen.
- AFM calls on the **sector** to *make a joint assessment* as to how it can improve the comparability of the product range. The international playing field of market parties presents an additional challenge in this respect.
- For this reason, AFM will also publicize the outcomes of this exploration at the international level.

Standards / Final

Press Release: [HTML]
https://www.afm.nl/en/sector/actueel/2023/februari/verkenning-cyberverzekeringen

Cyber insurance – Exploration of the Dutch insurance market:
https://www.afm.nl/~/profmedia/files/doelgroepen/verzekeraars/exploration-cyber-insurance.pdf
4 pages

28.02.2023 General, External Auditing

☐ Key ☐ Key – IA ☐ IA

#21 IESBA Strengthens and Clarifies the Independence Requirements for Group Audits

The *International Ethics Standards Board for Accountants* IESBA released *final* revisions to the **International Code of Ethics for Professional Accountants (including International Independence Standards)** to address holistically the various *independence considerations* in an **audit of group financial statements**.

- The *revisions* also *deal with the independence and other implications* of the changes made to the definition of an engagement team in the Code to align with changes to the *definition of the same term* in the *International Auditing and Assurance Standards Board* IAASB's *International Standards on Auditing ISAs* and *International Standards on Quality Management ISQMs*.
- "*Group audits play a fundamental role in safeguarding the integrity of, and public trust in, the financial markets*," said Ms. Gabriela Figueiredo Dias, IESBA Chair. "*For a long time, there was a vacuum in international standards addressing the independence of audit firms and individuals involved in group audits, leading to uncertainty and inconsistent practice around the world.*

"*This standard effectively closes that gap and responds in a timely manner to a public interest need for robust and clear requirements for independence in this important area*."

- Among other matters, the **revisions**:
  - Strengthen and clarify the independence principles that apply to:
    - Individuals involved in a group audit, including those within, or engaged by, firms that audit components within a group.
    - Firms engaged in the group audit, including firms within and outside the group auditor firm's network.

- Specify the need for, and content of, appropriate communication on independence matters between the group auditor firm and component auditor firms participating in the group audit.
- More explicitly, set out the process to address a breach of an independence provision at a component auditor firm, reinforcing the importance of transparency and appropriate communication with those charged with governance of the group.
- Amend the definitions of the terms "engagement team" and "audit team" in the Code to recognize the different and evolving engagement team structures and address the implications of those definitional changes.
- Provide guidance to facilitate the determination of who is included in an engagement team or an audit team.
- Revise the definitions of several existing terms and establish newly defined terms with respect to independence in a group audit context.

- The *development of the proposals* has benefited from close coordination with the IAASB's group audits and quality management projects.
- The **pronouncement** *will be effective for audits of financial statements and group financial statements for periods beginning on or after* 15 December 2023, with early adoption, permitted.

Standards / Final

Press Release: [HTML]
https://www.ethicsboard.org/publications/final-pronouncement-revisions-code-relating-definition-engagement-team-and-group-audits?utm_source=Main+List+New&utm_campaign=ff1c3e2c8e-EMAIL_CAMPAIGN_2023_02_28_02_35&utm_medium=email&utm_term=0_-ff1c3e2c8e-%5BLIST_EMAIL_ID%5D

Revisions to the Code Relating to the Definition of Engagement Team and Group Audits – Final Pronouncement:
https://www.ifac.org/system/files/publications/files/FINALP1_2.PDF
65 pages

Revisions to the Code Relating ot the definition of Engagement Team and Group Audits – Basis for Conclusions:
https://www.ifac.org/system/files/publications/files/BASISF1.PDF
39 pages

1.03.2023 15.0 Technology Failure or Disruption

☐ Key ☐ Key – IA ☐ IA

#22 AFM published an Exploratory study on IT Incident Management in Capital Markets

The Dutch *Authority for the Financial Markets* AFM published an *Exploratory study* on **IT Incident Management in Capital Markets** which indicates that *trading platforms and proprietary traders* (*Handelaren voor eigen rekening* HERs) *anticipate increased risks of IT incidents within the capital markets*.

- AFM has compiled an *overview of the measures* that these capital market participants are taking to *mitigate these*. It appears from the overview that *not all trading platforms and HERs are fully* DORA-proof *yet*.
- AFM *calls on capital market firms to initiate timely implementation* of these new digital EU legislative requirements (*Digital Operational Resilience Act* **DORA**), which *will come into force in* 2025.
- Trading platforms and HERs have a *legal duty to report incidents* to the AFM. IT-related incidents, such as cyber-attacks or system failures, and outsourced IT services are also covered by this reporting requirement.
- *Incident reports* enable the AFM to conduct *risk-based supervision* of the robustness of the capital market infrastructure. For this investigation, the AFM examined eight capital market participants on their IT management.

Increasing digitalization, increasing cyber threats

- The combination of *increasing digitalization and growing cyber threats* increases the risk of IT incidents that can have a significant impact on the business.
- These include *trading system failures, connection problems, and software errors*. AFM **expects** capital market participants to *assess the risks of IT incidents on their operations* and whether improvements are needed in IT incident management for controlled and ethical business operations.

Incident reports and market participant self-examination

- In this *investigation*, AFM relied on *incident reports and studies at eight trading platforms and HERs*. The AFM then made an *overview of the measures identified* in this investigation. Based on these measures, *businesses can improve their IT incident management*.

Not yet DORA-proof

- AFM observed that *incident management at the examined capital market participants does not yet fully comply with the additional* DORA regulatory requirements, which come into force in 2025. AFM stresses the *importance of a timely start with the implementation of the* DORA requirements.

Standards / Final

Press Release: [HTML]
https://www.afm.nl/en/sector/actueel/2023/maart/handelsplatformen-it-incidenten

IT Incident Management in Capital Markets – Exploratory study:
https://www.afm.nl/~/profmedia/files/nieuws/2023/incident-management-capital--markets.pdf
7 pages

1.03.2023 08.4 Product and Service Shelf

☐ Key ☐ Key – IA ☐ IA

#23 CPMI consults on ISO 20022 harmonization requirements for enhancing cross-border payments

The *Bank for International Settlements* BIS' *Committee on Payments and Market Infrastructures* CPMI published a consultative report on **ISO 20022 harmonization requirements for enhancing cross-border payments**.

- CPMI has worked with financial industry representatives to facilitate a harmonized adoption and use of ISO 20022 for cross-border payments.
- A *joint task force* JTF comprising technical experts from the CPMI and the *Payments Market Practice Group* PMPG was established in early 2022.

- JTF has *developed technical harmonization requirements* for the use of ISO 20022 messages in cross-border payments, which are presented in this consultative report.
- The *proposed introduction date* of the requirements would align with SWIFT's decision to remove the ability to send cross-border MT payment messages over its network in 2025.
- For the Indian G20 Presidency, the ISO 20022 harmonization requirements are a **key deliverable** under the G20 cross-border payments program.
- As the next steps, this report will be revised in response to the consultation, and the *final* report will be delivered to the Indian G20 Presidency by end-2023.

Standards / Consultation: 10 May 2023

Press Release: [HTML]
https://www.bis.org/cpmi/publ/d215.htm

CPMI Consultative Report – ISO 20022 harmonization requirements for enhancing cross-border payments:
https://www.bis.org/cpmi/publ/d215.pdf
68 pages

2.03.2023 4.4 Processes for the Management of Complaints / Litigations / Whistleblowing / Investigation Cases

☐ Key ☐ Key – IA ☐ IA

#24 ASIC published report on good practices for handling whistleblower disclosures

The *Australian Securities & Investments Commission* ASIC published a report *on* **"Good practices for handling whistleblower disclosures"** to help entities improve their arrangements for *handling whistleblower disclosures*, ensure they are effective, and encourage people to speak up.

- The report (REP 758) sets out the *good practices ASIC observed from its review of seven entities' whistleblower programs* from a cross-section of industries.
- ASIC **found** that programs with thoughtful and well-publicized *arrangements for protecting whistleblowers and handling disclosures* received useful reports and tip-offs about concerns and issues in the workplace.
- As a result, those entities had a greater opportunity to identify and address these concerns and issues at an early stage.
- ASIC **strongly encourages** entities to *consider how to scale and tailor the good practices* in the report to suit their operations.
- ASIC will *continue to review entities' whistleblower policies and arrangements* for handling whistleblower disclosures, including when it receives reports from whistleblowers alleging breaches of the whistleblower protections.
- *Where serious harm is identified, ASIC will consider the full range of regulatory tools available,* including, where appropriate, civil or criminal enforcement action.
- ASIC recently filed proceedings against TerraCom Limited for *alleged whistleblower victimization* (23-045MR).
- ASIC reminds entities that they are **obliged** *to handle whistleblower disclosures confidentially and protect whistleblowers from detriment*.

Standards / Final

Press Release: [HTML]
https://asic.gov.au/about-asic/news-centre/find-a-media-release/2023-releases/23-046mr-asic-publishes-report-on-good-practices-for-handling-whistleblower-disclosures/

Report 758 Good practices for handling whistleblower disclosures
https://download.asic.gov.au/media/wsjegua5/rep758-published-2-march-2023.pdf
23 pages

3. IIA Standards

28.02.2023 General, Internal Auditing

☐ Key ☐ Key – IA ☒IA Fraud Prevention and Detection

#25 IIA published a new issue of Tone at the Top: Lingering Fraud Risks of the COVID-19 Pandemic

The *Institute of Internal Auditors* IIA published a *new issue* of its "Tone at the Top" series on **"Lingering Fraud Risks of the COVID-19 Pandemic"**. Much of the world spent 2022 working to emerge as fully as possible from the *most disruptive impacts of the* COVID-19 pandemic.

- Unfortunately, while the world seems back to a relatively normal environment in some ways, *remnants of the world that* COVID *created remain*. The pandemic affected the business world in many ways, including *raising the risk of fraud*.
- The *International Federation of Accountants* IFAC noted early in the pandemic that the *new environment created* "*a heightened risk of fraud and improper financial reporting, as new opportunities and pressures can arise for both internal employees and external parties*."
- Board members should be aware that even though many of the pandemic's effects may be over, the *impacts of fraud may still be lurking*. "*History shows that fraud trends in a time of turmoil don't emerge immediately*," according to the 2022 PwC Global Economic Crime and Fraud Survey.

Standards / Final

Press Release: [HTML]
https://www.theiia.org/en/content/articles/tone-at-the-top/2023/tone-at-the-top-lingering-fraud-risks-of-the-covid-19-pandemic/

Tone at the Top Issue 115 – Lingering Fraud risks of the COVID-19 Pandemic:
https://www.theiia.org/globalassets/site/resources/research-and-reports/tone-at-the-top/2022/tatt-final-feb2023.pdf
4 pages

1.03.2023 General, Internal Auditing

☐ Key ☒Key – IA ☒IA General IA

#26 IIA Solicits Feedback on Proposed New Global Internal Audit Standards

The *Institute of Internal Auditors* IIA released for public comment a *draft of proposed* **changes to the** *International Professional Practices Framework* **IPPF, with a focus on the International Standards for the Professional Practice of Internal Auditing**.

- The *public comment draft* is the next step in the IPPF Evolution Project, an extensive research effort launched in 2020 that has engaged thousands of internal audit practitioners and stakeholders, including regulators, corporate directors, and standard-setting bodies from across the globe.
- Beyond the *extensive changes* to the Standards themselves, the public comment draft articulates the **keys** to *effective internal auditing* by *grouping the Standards into five domains* under the *newly named* **Global Internal Audit Standards ™**:

Domain I	The purpose of Internal Auditing articulates how internal auditing helps organizations achieve success and the conditions that make internal auditing most effective.
Domain II	Ethics and Professionalism incorporates the Code of Ethics and the current Standards relating to practitioner conduct and is enriched by addressing due professional care.
Domain III	Governing the Internal Audit Function clarifies the board's role. This change outlines important board responsibilities in support of an effective internal audit function and addresses how the chief audit executive (CAE) can support the board in carrying out its responsibilities.
Domain IV	Managing the Internal Audit Function clarifies the CAE's role and the responsibilities for effectively managing an internal audit function.
Domain V	Performing Internal Audit Services includes additional requirements and practices to ensure internal auditors provide high-quality services.

- Feedback from the public comment period will inform the continued development of the new Standards. The *final* Standards will be issued in late 2023 and *take effect* 12 months after *release*.

Standards / Consultation: 30 May 2023

Press Release: [HTML]
https://www.theiia.org/en/content/communications/press-releases/2023/march/the-iia-solicits-feedback-on--proposed-new-global-internal-audit-standards/

Global Internal Audit Standards – Exposure Draft :
https://www.theiia.org/globalassets/site/standards/ippf-blocks/ippf-survey/iia-global-internal-audit-standards-public-comment-draft-english-v2.pdf
108 pages

1.03.2023 General, Internal Auditing

☐ Key ☐ Key – IA ☒IA Fraud Prevention and Detection

#27 CIIA and Airmic released a new report on "Navigating geopolitical risk"

The UK *Chartered Institute of Internal Auditors* CIIA and Airmic joined forces to issue a new report "**Navigating geopolitical risk,**" published in partnership with AuditBoard. The report is aimed at encouraging boards, internal audit, and risk management to *work closer together in tackling the risks associated with geopolitical events*.

- With *internal audit* having a direct line to the Audit Committee and *risk management* having a direct line to the Risk Committee, both internal audit and risk professionals have *vital roles* to play to ensure greater resilience from geopolitical events.
- The report makes *several* **key recommendations** for boards, internal audit, and risk management, including:
  - Boards, internal audit, and risk management must recognize geopolitical risk as a strategic risk to the business: Geopolitical risk does not sit in a silo but exacerbates and intensifies a myriad of other business-critical risks such as supply chains, legal and compliance, reputation, financial liquidity, and cyber security.
  - Scenario planning and horizon scanning are key to preparing for geopolitical risk: Organizations must *resist the temptation to be events-led and retain agility for when crises strike*.
    But agility is not a license for them to improvise their response on the fly. They need to constantly challenge, stress test, and update all baseline assumptions about the likelihood and impact of the risks they could face.
  - Boards, internal audit, and risk management must be agile in responding to 'once-in-a-generation events' occurring with regular frequency: The new era of geopolitical uncertainty calls for organizations to be agile in responding to crises and be in a permanent state of readiness.
  - Boards, internal audit, and risk management must work more closer together as partners in geopolitical risk governance: key to this is sharing intelligence and rendering it relevant to the organization.
  - Internal audit and risk professionals must speak up and say the unthinkable on geopolitical risk and potential scenarios: they should do this even if this risks them being unpopular with the board.
    The *bigger risk* is of senior management or the board turning around and saying: 'Why didn't anyone see this coming?'.
- Anne Kiem OBE, Chief Executive, CIIA, said: "*With geopolitical risk still growing in severity, business leaders must learn lessons from the conflict in Ukraine by making sure they are properly prepared for the next big crisis that could be coming down the track.*
  "*Internal auditors, working in partnership with risk management, have a vital role to play in supporting organizations' preparedness for major geopolitical incidents*."

- Julia Graham, CEO, Airmic, said: "*Geopolitical risk is becoming far higher in profile on the risk radar of most businesses and is a board agenda item – one which demands a collaborative response from risk and internal audit professionals.*
  "*Building resilience is imperative. Businesses need to be prepared to deal with the significant disruption caused by political incidents*."
- Richard Chambers, Senior Internal Audit Advisor of AuditBoard (and former President and CEO of the Global IIA) said: "*The Chartered IIA and Airmic report on navigating geopolitical risk could not be timelier, given the one-year anniversary of the war in Ukraine.*
  "*Boards should be looking to both their internal audit and risk management functions to get assurance that their scenario planning processes for geopolitical events are robust – in the new era of geopolitical uncertainty, collaboration is key*."

Standards / Final

Press Release: [HTML]
https://www.iia.org.uk/policy-and-research/press-releases/business-must-prepare-for-continual-disruption-from-geopolitical-incidents-warns-chartered-iia-and-airmic/

Navigating geopolitical risk – Building resilience demands collaboration in a challenging world:
https://www.iia.org.uk/media/1692733/navigating-geopolitical-risk.pdf
48 pages

4. Information

23.02.2023 General, Supervisory Framework

☐ Key ☐ Key – IA ☐ IA

#28 CNMV Presented its 2023 Activity Plan

The Spanish *National Securities Market Commission* CNMV presented its **Activity Plan for 2023**, which includes 48 specific initiatives and activities to be performed through the year.

- When presenting the Plan, Rodrigo Buenaventura, CNMV Chairman, highlighted that "*in a particularly complex and changing environment, we wish to combine the reinforcement of supervision aimed at investor protection with the revitalization of the primary securities market. The issues related to sustainability, fraud prevention, and technological innovation will continue to have priority*".
- CNMV defined **five strategic lines** that will guide its actions for 2023 and 2024, which, in general, extend those followed in the 2021-2022 biennium:
  (i) Rigorous supervision of securities markets, paying special attention to financial stability. It will *strengthen its risk identification and analysis processes* with the use of new tools to build indicators of systemic risk in the markets.
  CNMV will *safeguard the resilience and robustness of the market infrastructures* and the entities providing investment services.
  (ii) Strengthening the protection framework for retail investors in the face of new challenges using financial education as the basic means for investor self-protection. Within this context, CNMV will supervise that the *design of investment products and services* is in the best interest of the client.
  CNMV will perform horizontal reviews to verify that the entities fulfill their obligations, identify practices that may affect investor protection, and intervene before these take root.
  CNMV will focus on the *products and services that promote ESG characteristics or sustainable investment objectives* and on those which are *most complex* and have a *long-term impact* while also on the marketing of fixed-income products.
  Along these lines, CNMV will intensify the actions foreseen in the framework of the *Financial Fraud Action Plan* FFAP to protect investors against *financial fraud and inappropriate practices*, focusing on warnings regarding unauthorized entities (financial boiler rooms), on advertising which is not legally compliant – unclear or deceitful messages – and on information spread via social networks and the Internet which may be understood as investment recommendations.
  (iii) Revitalizing capital markets to support growth and the transition to a sustainable economy. This will involve speeding up the *authorization procedures* for certain types of entities and those aimed at encouraging the participation of issuing companies in the market.
  Emphasis will be placed on the *disclosure of standardized and comparable information* to investors, and on reinforcing the supervision of non-financial information, particularly regarding sustainability, to facilitate the flow of investments to sustainable activities.
  The identification and follow-up of *possible greenwashing* practices will be prioritized.
  (iv) Monitoring the effects of financial and technological innovation on the securities markets with the intention of assessing the impact of such innovation, supporting development opportunities, and mitigating possible risks.
  Boosting the institution's *digital transformation* to improve its supervisory capabilities and increase its efficacy and efficiency is also envisaged.

(v) A supervisor is more accessible and connected to society. CNMV considers it necessary to boost institutional communication and strengthen its social commitment. CNMV intends to *make the information it generates more accessible* and create new communication channels on social networks with more understandable and useful messages.

Information

Press Release:
http://www.cnmv.es/Portal/verDoc.axd?t=%7B24a05eee-2c3e-479f-a8ef-d72ec7a72f6f%7D
4 pages

Líneas estratégicas de la CNMV 2023-2024 – Plan de actividades 2023 :
https://www.cnmv.es/DocPortal/Publicaciones/PlanActividad/Plan_Actividades_2023.PDF
54 pages

23.02.2023 15.0 Technology Failure or Disruption

☐ Key ☐ Key – IA ☐ IA

#29 ACPR published its key areas on risk management and iS security for insurers

The French *Autorité de Contrôle Prudentiel et de Résolution* ACPR published its **key areas of review for the risk management and** *information security* **IS for insurers**. ACPR has been conducting questionnaire surveys since 2015 in which insurance organizations self-assess the management of their IS and cybersecurity.

- The **results** of the survey conducted in 2022, to which 239 organizations responded, show an *awareness of cybersecurity issues*.
- Nevertheless, progress still needs to be made to *increase their resilience to cyber risk* and to anticipate certain work in view of the **DORA regulation** coming into force in January 2025.

Information

Press Release: [HTML]
https://acpr.banque-france.fr/communique-de-presse/les-points-dattention-de-lacpr-legard-des-assureurs-en-matiere-de-gestion-des-risques-lies-aux

Les points d'attention de l'ACPR à l'égard des assureurs en matière de gestion des risques liés aux systèmes d'information et leur sécurité
https://acpr.banque-france.fr/sites/default/files/medias/documents/cp_acpr_resultats_enquete_assurance_gestion_des_risques_ssi_vf_20230223_.pdf
1 page

Analyses et synthèses n°145 : Synthèse de l'enquête déclarative de 2022 sur la gestion de la sécurité des systèmes d'information des organismes d'assurance
https://acpr.banque-france.fr/sites/default/files/medias/documents/20230223_as_ssi_2022.pdf
20 pages

23.02.2023 4.1 Corporate and Legal Entity Governance

☐ Key ☐ Key – IA ☐ IA

#30 AMF informed on the application of the EU DLT Pilot Regime related to market infrastructures on blockchain

The French *Autorité des Marchés Financiers* AMF informed that the **application date of the EU Regulation on a pilot regime for market infrastructures based on the distributed ledger technology has been set as of 23 March 2023**. AMF provided certain useful information reminders around this and stands ready to engage with interested parties and prospective applicants.

- AMF informed that the *European Securities and Markets Authority* ESMA published a "Report on the DLT Pilot Regime and compensatory measures on supervisory data" in September 2022, which made **recommendations** in relation to *compensatory measures* that *national competent authorities* NCAs should request to *ensure the integrity, completeness, consistency, usability, and comparability* of the supervisory data collected from DLT market infrastructures.
- AMF also wishes to *remind potential applicants* that ESMA published a "Final report on guidelines on standard forms, formats and templates to apply for permission to operate a DLT Market Infrastructure" in December 2022.
- These guidelines contain such *forms, formats, and templates* to be used by interested applicants who wish to apply, be they new entities or already established ones, as well as for those wishing to *request exemptions* under the applicable **MiFID 2 / MiFIR** and **CSDR requirements**.
- AMF *highly* **recommends** that *potential applicants take the English-version guidelines into consideration* whilst waiting for official translations into EU languages to be finalized and reach out to the AMF should they wish to commence discussions on the Pilot regime.
- AMF also provided a **reminder** that any information relating to an *authorization* request to operate a DLT market infrastructure or *any exemption* request in relation to the EU DLT Pilot Regime must be submitted on a durable medium. AMF further **recommends** that such *information be submitted electronically and preferably in English*.

Information

Press Release: [HTML]
https://www.amf-france.org/en/news-publications/news/market-infrastructures-blockchain-application-eu-dlt-pilot-regime-march-23rd

23.02.2023 14.3 Treasury Risk Control Framework

☐ Key ☐ Key – IA ☐ IA

#31 US Agencies issue joint statement on liquidity risks resulting from crypto-asset market vulnerabilities

US *Federal bank regulatory agencies*[1] issued a joint statement highlighting **liquidity risks to banking organizations associated with certain sources of funding from crypto-asset-related entities** *and some effective practices to manage those risks*.

- Recent events in the crypto-asset sector have underscored the *potentially heightened liquidity risks* presented by certain sources of funding from crypto-asset-related entities.
- The joint statement highlights **key liquidity risks** and some **effective practices** to *monitor and appropriately manage* those risks.
- The statement reminds banking organizations to *apply existing risk management principles*; it does not create new risk management principles.
- Banking organizations are neither prohibited nor discouraged from providing banking services to customers of any specific class or type, as permitted by law or regulation.

Information

Press Release: [HTML]
https://www.federalreserve.gov/newsevents/pressreleases/bcreg20230223a.htm

Joint Statement on Liquidity Risks to Banking Organizations Resulting from Crypto-Asset Market Vulnerabilities:
https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20230223a1.pdf
3 pages

23.02.2023 4.1 Corporate and Legal Entity Governance

☐ Key ☐ Key – IA ☐ IA

#32 FSI published a new Insight on holding bank executives accountable for misconduct

The *Financial Stability Institute* FSI hosted by the *Bank for International Settlements* BIS published a *new document* of its Insights series on "**When the music stops – holding bank executives accountable for misconduct**". This paper reviews the *evolution of regulatory frameworks* that govern the accountability of banking executives and outlines their implementation challenges.

- Some authorities have introduced *individual accountability regimes* that impose specific responsibilities on senior bank executives, while others rely on *broader regulatory frameworks* to pursue corporate wrongdoing.
- Regardless of the approaches taken, *all frameworks are ultimately reliant on robust supervision and enforcement*.
- A multi-faceted approach, which FSI label the "accountability stack", is needed to get in "all the cracks" that drive senior executive behavior.
- That stack includes *layers of seemingly disparate regulatory and supervisory instruments* that interact in such a manner that the whole may be more effective in fostering individual accountability than the sum of the parts.
- Above all, the stack needs to be supported by the *institutional will* to act.
- The Great Financial Crisis and its aftermath exposed a wave of banking scandals, triggering financial instability, and eroding public confidence in banks.
- Amid economic uncertainty, societal frustration mounted at regulators' perceived *inability to hold executives accountable for failures* within their banks.
- In pursuing cases of misconduct, supervisory authorities found it difficult to pinpoint the role of high-level executives because they were often distant from the day-to-day activities where the alleged wrongdoing occurred.

Information

Press Release: [HTML]
https://www.bis.org/fsi/publ/insights48.htm

FSI Insights on policy implementation No. 48: When the music stops - holding bank executives accountable for misconduct:
https://www.bis.org/fsi/publ/insights48.pdf
36 pages

24.02.2023 8.4 Product and Service Shelf

☐ Key ☐ Key – IA ☐ IA

#33 APRA re-issued the 2022 MySuper Heatmap publication

The *Australian Prudential Regulation Authority* APRA re-issued its **2022 MySuper Heatmap publication** to ensure that *international index data is correctly reflected* in the relevant investment and performance test metrics.

- The *re-issue* of the MySuper heatmap has *not resulted in any changes to the products identified as having poor performance or significantly poor performance* in December 2022 or to the *performance test determinations* issued in August 2022.
- APRA has also published a *new set* of *frequently asked questions* (FAQs) to provide further information on these amendments.

Information

Press Release: [HTML]
https://www.apra.gov.au/news-and-publications/apra-re-issues-2022-mysuper-heatmap-publication

Superannuation heatmaps: [HTML; landing page with access to the relevant information and Heatmaps]
https://www.apra.gov.au/superannuation-heatmaps

Frequently Asked Questions (FAQs): [HTML; landing page with access to the relevant information]
https://www.apra.gov.au/superannuation-heatmaps-frequently-asked-questions

[1] *Board of Governors of the Federal Reserve System* FED, *Federal Deposit Insurance Corporation* FDIC, and *Office of the Comptroller of the Currency* OCC

24.02.2023 5.1 AML / KYC

☐ Key ☐ Key – IA ☐ IA

#34 SARB published a Statement on its commitment to the fight against money laundering, the financing of terrorism, and proliferation financing

The *South African Reserve Bank* SARB published a **Statement** reiterating its **commitment to the fight against money laundering, the financing of terrorism, and proliferation financing**. SARB *notes the decision* of the *Financial Action Task Force* FATF, at its February 2023 Plenary to *add South Africa to the list of jurisdictions currently under increased monitoring*.

- SARB notes that the decision is notwithstanding the *substantial efforts* by all stakeholders, under the National Treasury's leadership, to address the recommended actions contained in the FATF *Mutual Evaluation Report* MER of South Africa within the 12-month observation period.
- SARB and the South African government, more broadly, maintain a close and open relationship with FATF.
- Since FATF Mutual Evaluation of South Africa in October 2021, the coordinated government stakeholders have undertaken substantial and far-reaching efforts, led by the National Treasury, to **enhance** the *anti-money laundering, counter financing of terrorism and counter-proliferation financing* AML / CFT / CPF regime and its **implementation**.
- South Africa's hard work resulted in *most of the identified deficiencies being addressed* within the 12-month observation period afforded to South Africa.
- SARB joins the National Treasury in its *steadfast commitment* to actively assist the South African financial sector supervisors to *address all remaining* AML / CFT / CPF *deficiencies expeditiously* and to continually engage with all relevant stakeholders to enhance compliance and deter financial crime in South Africa.

Information

SARB Statement: The South African Reserve Bank's commitment to the fight against money laundering, the financing of terrorism and proliferation financing:
https://www.resbank.co.za/content/dam/sarb/publications/media-releases/2023/fatf-feb-2023/The%20SARB%20reaffirms%20its%20commitment%20to%20fight%20AML.CFT.CPF%20following%20the%20FATF%20announcement.pdf
3 pages

FSCA Press Release: The FSCA affirms tougher stance to combat money laundering and terrorist financing:
https://www.fsca.co.za/News%20Documents/FSCA%20Press%20Release%20-%20The%20FSCA%20affirms%20tougher%20stance%20to%20combat%20money%20laundering%20and%20terrorist%20financing.pdf
3 pages

24.02.2023 14.2 Credit Risk Control Framework

☐ Key ☐ Key – IA ☐ IA

#35 US Agencies issue 2022 Shared National Credit Program review

The US Agencies[2] published the **2022 Shared National Credit (SNC) Program review report,** which indicates that *credit quality associated with large, syndicated bank loans improved* in 2022 but noted the *results do not fully reflect increasing interest rates and softening economic conditions* that began to impact borrowers in the second half of 2022.

- Overall, the report finds that *credit risks for syndicated loans*—large loans originated by multiple banks—were *moderate* at the end of the review period.
- While risks to borrowers impacted by COVID-19 have *declined*, they *remain high for leveraged loans*, as well as the entertainment, recreation, and transportation services industries.
- The 2022 review, which evaluates the quality of large, syndicated loans, was conducted by the FED, FDIC, and OCC, and reflects the examination of SNC loans originated on or before June 30, 2022.
- Consistent with the approach taken in 2021, the review *focused on borrowers in five industries that were affected significantly by the pandemic*:
  (i) entertainment and recreation;
  (ii) oil and gas;
  (iii) commercial real estate;
  (iv) retail; and
  (v) transportation services.
- The 2022 SNC portfolio included 6,214 borrowers, totaling **USD 5.9tr** in commitments, an increase of 13.9% from a year ago. The *percentage of loans that deserve management's close attention* (loans rated non-pass, including special mention and classified SNC commitments) *decreased* from 10.6% of total commitments to 7.0% year over year.
- Nearly half of total SNC commitments are *leveraged loans*, and commitments to borrowers in industries affected by COVID-19 represent about one-fifth of total SNC commitments.
- For *leveraged borrowers* that also operate in COVID-19-affected industries, non-pass loans *decreased* to 18.9% but remain above the 13.5% observed in 2019.
- While US banks hold nearly 45% of SNC commitments, they hold only 21% of non-pass loans.

Information

Press Release: [HTML]
https://www.federalreserve.gov/newsevents/pressreleases/bcreg20230224a.htm

Shared National Credit Program, 1st and 3rd Quarter 2022 Reviews:
https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20230224a1.pdf
13 pages

[2] *Board of Governors of the Federal Reserve System* FED, *Federal Deposit Insurance Corporation* FDIC, and *Office of the Comptroller of the Currency* OCC

27.02.2023 General, Macroeconomics

☐ Key ☐ Key – IA ☐ IA

#36 APRA published an assessment of macroprudential settings

The *Australian Prudential Regulation Authority* APRA published an **update on its macroprudential policy settings**, explaining the key factors that have informed current levels. The paper provides greater *transparency on macroprudential policy* in line with APRA's *new* framework, which was published in 2021.

- **Macroprudential policy** is an *important feature* of APRA's toolkit. It involves *policy measures* aimed at promoting stability at a systemic level. In this information paper, APRA **confirmed** its view that *existing policy settings remain appropriate* based on the current risk outlook.
- The operative settings are:
  - a neutral level for the countercyclical capital buffer of 1.0% of risk-weighted assets, providing a buffer in bank capital for stress if needed; and
  - a 3% serviceability buffer to maintain prudent lending standards.
- APRA Chair John Lonsdale said the settings remained appropriate given the potential for domestic and global economic conditions to deteriorate.

Information

Press Release: [HTML]
https://www.apra.gov.au/news-and-publications/apra-publishes-assessment-of-macroprudential-settings

Information Paper – Update on APRA's macroprudential policy settings:
https://www.apra.gov.au/sites/default/files/2023-02/Information%20paper%20-%20Update%20on%20APRA's%20Macroprudential%20Policy%20Settings%20-%20February%202023.pdf
14 pages

27.02.2023 11.3 Business Continuity and Crisis Mgmt

☐ Key ☐ Key – IA ☒ IA Audit Standards and Practice Notes

#37 RBI Released a Compendium on Business Continuity Measures during the COVID-19 Pandemic

The *Reserve Bank of India* RBI published a **Compendium on Business Continuity Measures undertaken by RBI during the COVID-19 Pandemic**.

- To tackle the *challenges* posed by the pandemic, RBI mobilized on an unprecedented scale and speed to put in place a *cross-functional response* to:
  - safeguard the lives and livelihood of the people; insulate the economy and the financial sector;
  - ensure uninterrupted conduct of its crucial functions and maintain business continuity;
  - support its employees, service providers, and other stakeholders.
- *More than one hundred measures*, both conventional and unconventional, were undertaken during the period. The effort was to be proactive and innovative while remaining on guard to preserve financial stability.
- The compendium encapsulates the details of RBI's fight against the COVID-19 pandemic.

Information

Press Release: [HTML]
https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=55294

Compendium on Business Continuity Measures:
https://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/CBCM270220234FE1B8CD702C499FB1D2980EC54F7AC1.PDF
54 pages

27.02.2023 5.1 AML / KYC

☐ Key ☐ Key – IA ☐ IA

#38 ACPR informed about the COLB Report on the National analysis of money laundering and terrorist financing risks in France

The French *Autorité de Contrôle Prudentiel et de Résolution* ACPR introduced the report on the **National analysis of money laundering and terrorist financing risks in France** published by the *Conseil d'orientation de la lutte contre le blanchiment de capitaux et le financement du terrorisme* (COLB).

- ACPR notes that the *fight against money laundering and terrorist financing* AML / CFT has been a *priority for France* for many years.
- The **threats** posed by terrorism and organized crime networks, the high expectations expressed by society in the face of economic crime, and the need to preserve the integrity of our financial system are *challenges facing the country*. They fully justify the high level of *ambition* of French policy in this area.
- The *various* measures have been strengthened, particularly following the terrorist attacks committed on French territory since 2015.
- The government has thus carried out a series of *structural reforms* to prevent cases of ML, to dry up the sources and methods of TF and to *crack down on all forms of financial crime*.
- The constant evolution of the *legislative and regulatory framework* reflects the authorities' determination to adapt to new risks, the terrorist threat, and emerging threats.
- The **initiatives** taken and the measures implemented were highlighted in the evaluation report on France published by the *Financial Action Task Force* FATF in May 2022, which **concluded** that this country has a *robust, sophisticated, and highly effective AML / CFT framework* on several counts.

Information

Press Release: [HTML]
https://acpr.banque-france.fr/analyse-nationale-des-risques-de-blanchiment-de-capitaux-et-de-financement-du-terrorisme-en-france

Analyse nationale des risques de blanchiment de capitaux et de financement du terrorisme en France – rapport du Conseil d'orientation de la lutte contre le blanchiment de capitaux et le financement du terrorisme (COLB)
https://acpr.banque-france.fr/sites/default/files/medias/documents/20230227_rapport_analyse_nationale_risques_lcb-ft.pdf
194 pages

27.02.2023 General, Macroeconomics

☐ Key ☐ Key – IA ☐ IA

#39 SRB published the MREL dashboard for the third quarter of 2022

The EU *Single Resolution Board* SRB published its *minimum requirement for own funds and eligible liabilities* **MREL dashboard for the third quarter of 2022**.

- **Key findings** of the dashboard include:
    - For resolution entities, the average MREL final target (including the CBR), to be respected by 1 January 2024, was equal to 26.4% of the *Total Risk Exposure Amount* TREA, remaining broadly stable compared to Q2.2022.
    - The MREL shortfall (including the CBR) with respect to the final targets continued to decline, albeit at a slower pace, reaching the value of EUR 30.5bn (corresponding to 0.4% TREA).
    - For *non-resolution entities*, the MREL shortfall against the final targets (including the CBR) rose over the quarter, amounting to EUR 20.9bn (corresponding to 0.9% TREA).
    - The maturity profile of the MREL instruments showed that around 39% of the *stock was made of instruments with residual maturities between* two and 10 years, while the share of short-term MREL debt (maturing between one and two years) remained low, equal to about 7% of the total.
    - Overall, SRB banks issued EUR 75bn of MREL-eligible instruments, a higher level compared to the previous quarter as well as year-on-year.
    - In the final months of the year, market conditions improved significantly, and investors' demand in unsecured primary markets was strong.
    - At the end of September, *funding costs* reached the *highest levels since the beginning of* 2022 but decreased throughout the last quarter of the year, reaching in December the lowest levels since mid-August. However, they were higher than pre-pandemic levels of the beginning of February 2020.

Information

Press Release: [HTML]
https://www.srb.europa.eu/en/content/single-resolution-board-publishes-mrel-dashboard-q32022

SRB MREL Dashboard, Q3.2022:
https://www.srb.europa.eu/system/files/media/document/2023-02-27_MREL-Dashboard-Q3.2022.pdf
28 pages

27.02.2023 General, Macroeconomics

☐ Key ☐ Key – IA ☐ IA

#40 BIS published the Quarterly Review, March 2023

The *Bank for International Settlements* BIS released its **Quarterly Review for March 2023**. The current edition of the Quarterly Review stays under the heading of "Perception of risk and policy outlook drive markets".

- BIS notes that **financial markets** extended previous gains during the review period. As **inflation** readings gradually fell and the pace of policy tightening slowed early in the period, financial conditions eased, and *risky asset valuations generally rose on the back of perceptions of declining risks*.
- Expectations of significant rate cuts in the near term appeared to firm up, despite cautious central bank communication about the policy outlook.
- The **USD** *depreciated further*, lending additional support to assets in *emerging market economies* EMEs. Towards the end of the period, however, *market developments proved sensitive to news that challenged investors' sanguine attitude*.
- The current edition of the Quarterly Review also includes **special features** dedicated to:
    (i) Commodity prices, the USD, and stagflation risk
    (ii) Global supply chain interdependence and shock amplification – evidence from COVID lockdowns
    (iii) Prudential policy and financial dominance: exploring the link
    (iv) COVID, central banks and the bank-sovereign nexus.

Information

BIS Quarterly Review, March 2023: [HTML; Overview]
https://www.bis.org/publ/qtrpdf/r_qt2303.htm

BIS Quarterly Review, March 2023:
https://www.bis.org/publ/qtrpdf/r_qt2303.pdf
78 pages

27.02.2023 General, External Auditing

☐ Key ☐ Key – IA ☐ IA

#41 IFAC, AICPA & CIMA released a report on "The State of Play: Sustainability Disclosure & Assurance"

The *International Federation of Accountants* IFAC, the *Association of International Certified Professional Accountants* AICPA, and the *Chartered Institute of Management Accountants* CIMA released a *new* report on "**The State of Play: Sustainability disclosure & Assurance**".

- The largest global companies continue to *show momentum in corporate reporting* and related assurance involving *environmental, social and governance* ESG issues.
- Significant *hurdles* remain, however, when it comes to providing *consistent, comparable, and high-quality sustainability information* for investors and lenders.

- Some 95% of large companies reported on ESG matters in 2021, the latest year available, the IFAC-AICPA & CIMA study found. That's up from 91% in 2019. *64% of companies obtained assurance over at least some ESG information in 2021*, up from 51% in 2019. The inability so far to coalesce around agreed upon global standards continues to create challenges, however.
- The report also examines the *extent to which companies provide forward-looking information on emissions reduction targets* and plans. While two-thirds of companies disclosed targets, they lag the rate at which companies report their historic greenhouse gas emissions (97%).
- Additional **Key Findings** include:
  - The use of the *Sustainability Accounting Standards Board* SASB standards and the *Task Force on Climate-Related Financial Disclosures* TCFD framework has increased significantly between 2019 and 2021: there was a 29% increase in SASB standards usage and a 30% for the TCFD framework.
  - While accounting firms conduct more engagements, their market share—57% of sustainability / ESG assurance engagements—has declined from 63% in 2019.
  - When companies obtained assurance from a professional accountant, they chose their statutory auditor 70% of the time.
- Globally, the *International Auditing and Assurance Standards Board* IAASB's International Assurance Engagement Standard 3000 (Revised) remains the most popular standard when providing assurance:
  - 95% of firms providing assurance use ISAE 3000, up from 88% in 2019.
  - 38% of non-accountant service providers use ISAE 3000, up from 34% in 2019.

Information

Press Release: [HTML]
https://www.ifac.org/news-events/2023-02/momentum-builds-corporate-esg-disclosure-and-assurance-yet-reporting-inconsistencies-linger-study

The State of Play: Sustainability Disclosure & Assurance – 2019-2021 Trends & Analysis:
https://www.ifac.org/system/files/publications/files/IFAC-State-of-Play-Sustainability-Assurance-Disclosures.pdf
48 pages

28.02.2023 General, Macroeconomics

☐ Key ☐ Key – IA ☐ IA

#42 BdI published a Guide to the credit quality data

The *Banca d'Italia* BdI published a brief **guide to statistical information on the credit quality of various types of intermediaries** (banks, banking groups, financial companies), as part of its series on "Methods and Sources: Special Topics".

- The guide helps to bring order to the information available on BdI's Statistical database, making it easier for those interested to identify which statistics are most appropriate for their purposes.

Information

Press Release: [HTML]
https://www.bancaditalia.it/media/notizia/credit-quality-a-guide-to-the-data-published-by-the-bank-of-italy/

La qualità del credito. Guida ai dati pubblicati dalla Banca d'Italia: [HTML]
https://www.bancaditalia.it/pubblicazioni/metodi-e-fonti-approfondimenti/metodi-fonti-2023/Metodi_e_Fonti_La-qualita-del-credito.pdf?language_id=1

28.02.2023 General, Supervisory Framework

☐ Key ☐ Key – IA ☐ IA

#43 BoE informed that the FSRI Forum released the sixth edition of the Regulatory Initiatives Grid

The *Bank of England* BoE informed that the *Financial Services Regulatory Initiatives Forum* published the **sixth edition of the Regulatory Initiatives Grid**, setting out the *regulatory pipeline* to give firms a clear view of upcoming regulatory initiatives.

- Among the initiatives included in the sixth edition of the Grid are
  - those which *preserve regulatory protection* while including a renewed *focus on growth and competitiveness* (for example, the Senior Managers and Certification Regime),
  - those which enable *better use of technology and innovation* (for example, consultations on rules for the stablecoin regime and the future regulatory regime for crypto assets), and
  - those that will *simplify and reduce regulatory burden* (for example, transforming data collection and a strong and simple prudential framework for non-systemic banks and building societies).
- The *delay* of this edition of the Grid from November 2022 to now has also allowed the regulators to better consider how the opportunities provided by the Edinburgh Reforms will impact the regulatory pipeline and initiatives over the coming years, as well as any *updates to key initiatives* affected by the *Financial Services and Markets Bill* (**FSM Bill**).

Information

Press Release: [HTML]
https://www.bankofengland.co.uk/report/2023/sixth-edition-of-the-regulatory-initiatives-grid

Regulatory Initiatives Grid:
https://www.fca.org.uk/publication/corporate/regulatory-initiatives-grid-feb-2023.pdf
61 pages

Regulatory Initiatives Grid dashboard: [HTML]
https://www.fca.org.uk/publications/corporate-documents/regulatory-initiatives-grid/dashboard

28.02.2023 General, Supervisory Framework

☐ Key ☐ Key – IA ☐ IA

#44 BCBS published the Basel III Monitoring Report

The *Basel Committee on Banking Supervision* BCBS released the **Basel III Monitoring Report** setting out the *impact of the* Basel III framework, including the December 2017 Finalization of the Basel III Reforms and the January 2019 Finalization of the market Risk Framework.

- The *implementation* of the *final* Basel III minimum requirements began on **1 January 2023**. For this reporting period, the average impact of the fully phased-in final Basel III framework on the Tier 1 *minimum* required *capital* MRC of Group 1 banks is +2.8%, compared with +2.4% at the end of December 2021.
- Group 1 banks reported total *regulatory capital shortfalls* amounting to EUR 7.8bn, compared with a shortfall of EUR 0.3bn at end-December 2021, due to an improvement in data reporting quality.
- The *monitoring exercises* also collect bank data on Basel III liquidity requirements. The weighted average *Liquidity Coverage Ratio* LCR decreased from the prior reporting period to 138.4% for Group 1 banks.
- For this reporting period, three Group 1 banks reported an LCR below the minimum requirement of 100% as they used the flexibility embedded in the Basel framework to use their stock of *high-quality liquid assets* HQLA during the pandemic period.
- The weighted average *Net Stable Funding Ratio* NSFR decreased to 123.5% for Group 1 banks. As of June 2022, all banks in the NSFR sample reported a ratio that met or exceeded the minimum requirement of 100%.

Information

Press Release: [HTML]
https://www.bis.org/press/p230228.htm

Basel III Monitoring Report:
https://www.bis.org/bcbs/publ/d546.pdf
128 pages

1.03.2023 8.4 Product and Service Shelf

☐ Key ☐ Key – IA ☐ IA

#45 BdI published a paper on Open Banking in the payment system

The *Banca d'Italia* BdI published a *new document* of its Markets, Infrastructures, Payment Systems series on "**Open Banking in the payment system: infrastructural evolution, innovation, and security, supervisory and oversight practices**".

- The paper describes the features of **open banking**, its impact on the Italian payments market, and the changes it has brought about in the supervisory and oversight procedures of BdI, the competent financial authority.
- The paper also addresses the role of BdI, which has been implemented to govern relations with the new players in the payment chain and to ensure that the overall stability of the payment system is maintained over time.
- In the Italian market, the application of **EU regulations**, set out in **PSD 2**, led to the development of system solutions, based on hubs, to which *payment service providers* turned to a great extent to set up dedicated interfaces for third-party access.
- The national competent authority NCA, in its supervisory and oversight functions, has *set out system of controls*, provided for by the **regulations**, to respond to the new and highly innovative characteristics of the market.
- The *oversight activity* also includes the collection of statistical data to monitor the efficiency, reliability, security, and compliance profiles of the system solutions, enabling the development of useful indicators to assess the evolution of the national market.

Information

Press Release: [HTML]
https://www.bancaditalia.it/pubblicazioni/mercati-infrastrutture-e-sistemi-di-pagamento/questioni-istituzionali/2023-031/index.html

Mercati, infrastrutture, sistemi di pagamento No. 31: L'Open Banking nel sistema dei pagamenti: evoluzione infrastrutturale, innovazione e sicurezza, prassi di vigilanza e sorveglianza:
https://www.bancaditalia.it/pubblicazioni/mercati-infrastrutture-e-sistemi-di-pagamento/questioni-istituzionali/2023-031/N.31-MISP.pdf?language_id=1
45 pages

1.03.2023 8.5 Client Asset Risk Management and Control

☐ Key ☐ Key – IA ☐ IA

#46 ESRB published a paper on "Financial fragility in open-ended mutual funds: the role of liquidity management tools"

The *European Systemic Risk Board* ESRB published a *new document* of its Working Paper Series on "**Financial fragility in open-ended mutual funds: the role of liquidity management tools**". The authors of the WP study the *role* of *liquidity management tools* LMTs in mitigating financial fragility in investment funds during the COVID-19 market distress.

- The authors employ a *unique dataset* that reports the availability of different types of LMTs in a sample of Irish-domiciled corporate bond funds.
- The authors find that *funds with access to* price-based tools such as redemption fees or anti-dilution levies *experienced lower net outflows* in March 2020, as *compared to funds with only quantity-based tools* such as redemption gates, temporary suspensions, or redemption in kind.
- This *difference is stronger* among funds with a *high sensitivity of flows to past performance* and reflects both higher gross in- flows and lower gross outflows during this episode.
- Funds with price-based LMTs also *rebalance their portfolios towards less liquid bonds*, which results in lower price fragility among bonds held disproportionally by our sample of Irish-domiciled funds.

Information

ESRB Working Paper Series No. 140 – Financial fragility in open-ended mutual funds: the role of liquidity management tools:
https://www.esrb.europa.eu/pub/pdf/wp/esrb.wp.en~78293fd4bd.140.pdf?23c9d506469eaa8f4e220cfd6925a169
47 pages

1.03.2023 14.1 Market Risk Control Framework

☐ Key ☐ Key – IA ☐ IA

#47 ESMA found that MCM had no measurable impact on financial markets under current market conditions

The *European Securities and Markets Authority* ESMA published its **Effects Assessment of the introduction of the** *market correction mechanism* **MCM on gas derivative markets**. The *results confirm the findings of the preliminary data report* that, to date, no measurable impact of the MCM can be identified.

- In the report, ESMA *explores whether some shift of trading has unfolded* as a consequence of the MCM. Based on this analysis, ESMA notes that *no changes in the EU gas derivatives trading could be identified so far* that could be unequivocally and directly attributed to the MCM.
- In addition, the report describes the *impact* of the MCM on the CCPs' *capacity to conduct their risk management activities* to calculate their exposures and to manage potential clearing member defaults.
- The *analysis* performed *did not result at this stage in the identification of noticeable changes in CCP risk management* or in margin requirements that could be attributed to the MCM.
- The absence of a significant impact of the MCM on the trading and clearing environment should not be understood as the MCM not having any impact and reflects the current market environment characterized by low gas prices and high storage levels.
- The *impact of the* MCM *could be different* as the market environment changes, and the activation of the MCM is anticipated by market participants.
- Last, the recent announcements by ICE Endex and EEX to offer, respectively, the trading of TTF contracts in the UK and on an EU OTF – both *outside the scope of the* **MCM Regulation** – confirm that market participants are preparing for a scenario where the MCM could be activated in the future.
- The Effects Assessment is covering the time horizon since the adoption of the MCM in December 2022 and granular market indicators regarding trading activity, liquidity, and execution.

Information

Press Release: [HTML]
https://www.esma.europa.eu/press-news/esma-news/esma-finds-mcm-had-no-measurable-impact-financial-markets-under-current-market

Effects Assessment of the impact of the market correction mechanism on financial markets:
https://www.esma.europa.eu/sites/default/files/library/ESMA70-446-794_MCM_Effects_Assessment_Report.pdf
54 pages

Preliminary data report – On the introduction of the market correction mechanism: [for reference, document published on 23 January 2023]
https://www.esma.europa.eu/sites/default/files/library/esma70-446-775_preliminary_data_report_on_mcm.pdf
37 pages

5. Enforcement

27.02.2023 5.1 AML / KYC

☐ Key ☐ Key – IA ☐ IA

#48 ACPR Enforcement Committee sanctions and fines Axa Banque EUR 1m

The French *Autorité de Contrôle Prudentiel et de Résolution* ACPR informed that, in a decision dated 15 February 2023, the ACPR *Enforcement Committee* issued a reprimand and a financial penalty of **EUR 1m** against Axa Banque. This decision will be published in the ACPR register.

- The *Committee* mainly sanctioned the fact that, at the time of the inspection, Axa Banque's *customer knowledge system was still deficient* and that its system for *monitoring and analyzing customer transactions* was based on a set of *inadequate and incomplete scenarios*.
- The *Committee* also noted a certain number of *specific failures relating to the implementation* of additional or enhanced due diligence measures, as well as a few *failures to conduct enhanced examinations* and to *report to* Tracfin.
- The *Committee* considered the *extent of the remedial actions* undertaken, as certified by an independent firm, and the fact that they had started before the on-site inspection, but considered that Axa Banque, which belongs to a large group, had been *too slow to take the measure of its* AML / CFT obligations.
- In its **decision**, the *Committee* clarified the *obligations to consider* "negative information" on customers and the exact scope of the provisions of the **Monetary and Financial Code** that define the obligations of enhanced scrutiny and reporting of suspicions to Tracfin.

Enforcement

Press Release:
https://acpr.banque-france.fr/sites/default/files/medias/documents/20230227_cp_commission_des_sanctions_acpr_axa_banque.pdf
1 page

ACPR Decision:
https://acpr.banque-france.fr/sites/default/files/media/2023/02/27/20230227_decision_axa_banque.pdf
15 pages

28.02.2023 8.5 Client Asset Risk Management and Control

☐ Key ☐ Key – IA ☐ IA

#49 **FINMA concluded "Greensill" proceedings against Credit Suisse**

The Swiss *Financial Market Supervisory Authority* FINMA announced that it *concluded its enforcement proceedings* against Credit Suisse in connection with its business relationship with financier Lex Greensill and his companies. FINMA finds that Credit Suisse *seriously breached its supervisory obligations* in this context regarding *risk management and appropriate organizational structures*.

- FINMA ordered *remedial measures*. In future, the Credit Suisse will have to *periodically review at the executive board level* the most important business relationships (around 500) in particular for counterparty risks.
- In addition, the bank is *required to record the responsibilities of its approximately 600 highest-ranking employees in a responsibility document*. FINMA has also opened *four* enforcement proceedings against *former* Credit Suisse *managers*.
- In March 2021, Credit Suisse closed four funds at short notice that were related to companies of the financier Lex Greensill (hereinafter referred to as "Greensill").
- These funds were *distributed to qualified investors*, whereupon their risk was indicated as low in the client documentation. At the time of the closure, clients had invested a total of around USD 10bn in the funds.
- Immediately after the closure of the funds in March 2021, FINMA took various *risk-reducing measures* and opened enforcement proceedings. The focus was on the question of whether the Credit Suisse Group had violated Swiss supervisory law in its business relationship with Greensill.

Structure of the funds

- In 2017, Credit Suisse launched the first of four funds in supply chain finance in collaboration with Greensill. With this type of financing, the purchase price of a good with a respite is immediately refunded by a financing company (instead of the actual buyer) with a discount.
- In return, the financing company receives a claim against the actual buyer. If the buyer pays the full purchase price, the financing company makes a profit. Greensill acted as a financing company, securitized the claims, and transferred the securities to the four Credit Suisse funds. It was *planned that specific insurance cover* would secure most of the claims against the default of buyers.
- FINMA's **investigation** showed that overall, Credit Suisse's asset management company *had little knowledge and control over the specific claims*. In fact, it was not Credit Suisse as the asset manager of the funds that selected and reviewed them, but Greensill itself. Credit Suisse also left it to the latter to arrange the insurance cover in its own name.

The funds also purchased possible future claims

- Over time, the *risk character of the funds changed decisively*. In some instances, Greensill additionally transferred future claims to the funds that had not yet arisen and, therefore, also expectations of a company about possible future claims.
- By selling future claims to the Credit Suisse funds, Greensill *financed some companies whose creditworthiness was doubtful*.
- FINMA's **investigation** showed that Credit Suisse *did not initially realize the consequences of this change*. In addition, Credit Suisse had *no knowledge or control* over how many claims were contractually owed. In this context, it relied on the insurance cover organized by Greensill.

Many critical observations, too few appropriate reactions

- The closure of a fund at another fund provider that had also worked with Greensill led to enquiries at Credit Suisse in 2018 about the funds associated with Greensill.
- Media representatives repeatedly approached the Credit Suisse executive board with critical questions and information. FINMA also *repeatedly asked critical questions* of the banking group's governing bodies about its business relationship with Greensill and the associated risks.
- Greensill, for its part, announced to the bank that it *was planning an IPO* with Credit Suisse. Greensill first needed a bridging loan. The Credit Suisse risk manager responsible for the loan identified several risks in Greensill's business model.
- He, therefore, *recommended internally at the bank not to grant the loan*. A senior manager overruled this recommendation.
- As FINMA's **investigation** revealed, the bank *used employees* who were themselves responsible for the business relationship with Greensill and were therefore *not independent to deal with critical questions or warnings*.
- Credit Suisse even repeatedly asked Lex Greensill himself and relied on his answers for its own statements. For these reasons, the bank *made partly false and overly positive statements* to FINMA about the claims selection process and the funds' exposure to certain debtors.

Deficiencies in risk management and organizational structures

- In its proceedings, FINMA **concluded** that Credit Suisse Group *seriously breached its supervisory duty* to adequately identify, limit and monitor risks in the context of the business relationship with Lex Greensill over a period of years.
- FINMA also found *serious deficiencies* in the bank's organizational structures during the period under investigation. Furthermore, it did *not sufficiently fulfill its supervisory duties* as an asset manager. FINMA thus **concludes** that there has been a *serious breach of Swiss supervisory law*.

Internal investigation by Credit Suisse

- Credit Suisse has adopted a wide range of organizational measures based on its own investigation of the case. *Governance structures were revised, and control processes strengthened*, namely in the approval and monitoring of fund products.
- FINMA supports these measures. At the same time, FINMA is ordering *several other measures* to further improve the banking group's risk management and governance.

Measures imposed by FINMA

- The business relationship with Greensill was repeatedly discussed at the Credit Suisse management level. However, this was usually *only done selectively* because of a specific event or request.
- There was a lack of an overall view as well as regular, consistent engagement with the risks associated with Greensill at the highest level. FINMA, therefore, orders the banking group to *prospectively assess its significant business relationships according to risks*.
  - From now on, the bank's most important (approximately 500) business relationships are to be reviewed periodically and holistically for counterparty risks at executive board level.
  - In addition, the areas of responsibility of the bank's (approximately 600) *highest managers must in the future be recorded in a document of responsibility*.
  - If they do not organize and manage their business area in such a way that misconduct is prevented as far as possible, they must be sanctioned by the bank, for example, through a reduction of their variable compensation.
- FINMA will *appoint an audit mandatory to review compliance with these supervisory measures*.

Clarification of individual responsibilities

- FINMA has also opened ***four*** enforcement proceedings against former Credit Suisse managers. FINMA will not comment further on these proceedings, particularly not on the identity of the persons concerned.

Enforcement

Press Release: [HTML]
https://www.finma.ch/en/~/media/finma/dokumente/dokumentencenter/8news/medienmitteilungen/2023/02/20230228-mm-greensill.pdf?sc_lang=en&hash=4B2C2D09A4369C7957F1999F61CE23F1
4 pages

Meilen, 2 March 2023 / JCR

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