

Corporate & Investment Banking

# QUARTERLY **REGULATORY OUTLOOK**

APRIL 2023

**TNP<sup>1</sup>**

# EXECUTIVE SUMMARY

## **CRR3**

On January 1<sup>st</sup> 2025 the amendment to CRR regarding capital adequacy of banks will get into force.

The new regulation introduces significant changes to the methods used for calculating and reporting capital requirements. Those changes cover most of the areas considered in capital adequacy (credit and counterparty credit risk, market risk, operational risk, CVA, prudential consolidation, reporting).

## **CSDR**

EU member states settled their negotiating position on a proposed update of the central securities depositories regulation (CSDR). The planned review will make EU securities settlement more efficient by simplifying requirements and clarifying authorization processes among other things.

## **SFDR**

The SFDR level 2 rules, which strengthen the reporting requirements for sustainable and ESG-labelled financial products, went into effect on January 1<sup>st</sup>, 2023. There are concerns over their alignment with the EU taxonomy, reporting of Scope 3 emissions, and the reporting of Principal Adverse Impact Statements.

## **MiCA**

Markets in Crypto Assets (MiCA) will come into effect in 2024, and investment banks will need to comply with the new rules. The potential impacts for investment banks could include additional compliance requirements, as well as potential changes to business models and operations.

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# RISK



# #MARKETRISK

## CRR3/CRD6

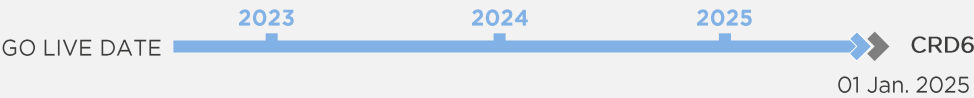
### Capital Requirements Regulation/Directive

#### Description

The CRD VI proposals are aimed at further **strengthening the EU prudential framework**, while CRR outlines requirements for **large institutions to disclose prudential information** relating to ESG, including **transition and physical risk**.

#### Updates

Given the time CRR3/CRD6 negotiations are expected to take, **January 2025 is very likely the earliest feasible implementation date**, and it is unlikely that there will be pressure from EU Member States to implement earlier.



## FRTB

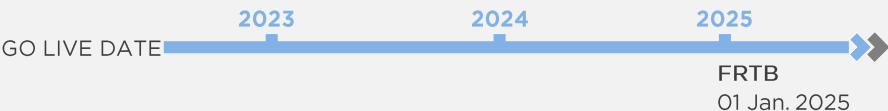
### Fundamental Review of the Trading Book

#### Description

The revised rules are expected to result in significant **operational complexity** for all market participants, including demand for **high-quality data**, efficient and scalable **computation engines**, additional **reporting overheads** and stringent **governance requirements**.

#### Updates

The application file to apply to use the Internal Model Approach is expected to be submitted in June 23. The Application must prove to the regulator that each of the desks applying to use the IMA comply with the requirements. **The main challenge at this stage is to show that they are on the right path to pass the PLA**



IRT

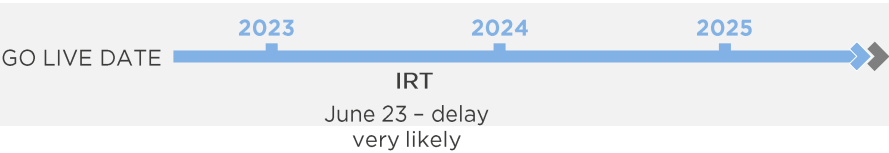
Internal Risk Transfer

Description

The **Internal Risk Transfer requirement** aims at isolating the **IR Risk Transfer between the Trading Book and the Banking Book** and capitalizing them stand alone for the risk metrics computation

Updates

The EBA issued a “no action letter” in February that advises the regulator not to launch any work on this topic this year. Initial go live was expected in June 23 but most banks now consider that the go live will be postponed to early 25 (as per FRTB).



IFR/IRD

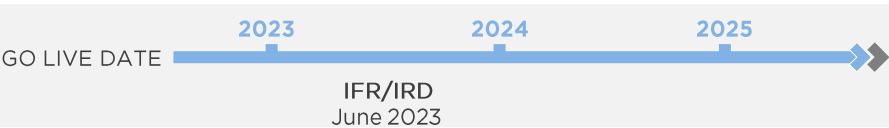
Investment Firms Regulation (IFR) and Directive (IFD)

Description

The IFR and IFD regulations introduce a tailored prudential framework for investment firms in the European Union (EU).

Updates

The new framework will require investment firms to **calculate their capital requirements** using a more risk-sensitive approach, which includes market risk. These regulations are expected to go live in **June 2023**.



## UCITS/ PRIIPS

### Undertakings for the Collective Investment in Transferable Securities

#### Description

Regulatory framework that creates a harmonized regime throughout Europe for the management and sale of mutual funds. UCITS funds can be registered in Europe and sold to investors worldwide using unified regulatory and investor protection requirements.

#### Updates

New legislation published in December 2021

- has made **content changes** to the PRIIPs Level 2 RTS
- required that, where a UCITS provides an investor with a PRIIPs KID, it is **deemed to have complied** with its obligation to provide a KIID under the UCITS Directive.



## AIFMD II

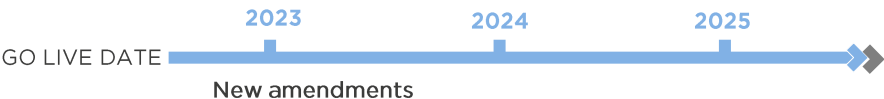
### Alternative Investment Fund Managers Directive

#### Description

AIFMD aims to **regulate** alternative investment fund managers and the distribution of alternative investment funds (AIFs) in the EU to **ensure investor protection** and **avoid systemic risks**

#### Updates

On 9 February 2023, the European Parliament's Economic and Monetary Affairs Committee published a report on the amendments it has adopted to the EC's legislative proposal for a directive amending the Alternative Investment Fund Managers Directive 2011/61/EU (AIFMD) and Directive 2009/65/EC (UCITS Directive).



# #CREDITRISK

## EBA GUIDELINES

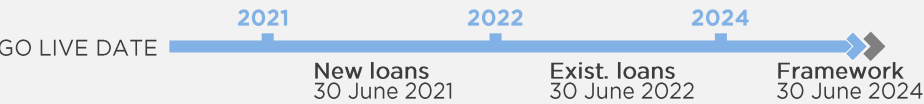
### European Banking Authority Guidelines on loan origination and monitoring

#### Description

The requirements are structured in **five sections** : **Monitoring framework**, **Internal governance** for credit granting and monitoring, **loan origination** procedures, valuation of immovable and movable **property** and **pricing**.

#### Updates

EBA guidelines become effective on **30 June 2021 for new loans** and **30 June 2022 for existing loans**. The deadline for the implementation of the monitoring framework for loans issued after 30 June 2021 is **30 June 2024**.



## TAXONOMY

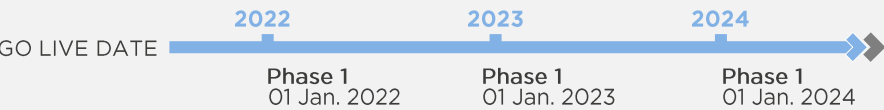
### Taxonomy Regulation

#### Description

The Taxonomy Regulation establishes a classification system which provides an EU-wide common language to identify whether or not a given economic activity should be considered "environmentally sustainable".

#### Updates

Since 01/01/2022, the requirement to deliver sustainability indicators applies. The **reporting obligations** set out in the Delegated Regulation of July 6, 2021, will be phased as follows: **light reporting** in 2022, **full reporting** in 2023 and full reporting + **publication of indicators** in 2024.





# EXECUTION & OPERATIONS



# CSDR Refit

## Central Securities Depositories Regulation

### Description

The EU CSDR Refit initiative looks to **provide a new framework**, including the CSD passporting procedure, cooperation **between countries**, **cross-border settlements** and **importantly, revise the scope of the SDR and the mandatory buy-ins.**

### Updates

The European Commission to propose a conditional Mandatory Buy In with a narrowed scope and a pass-on mechanism – The ECB and the EP rapporteur in favor of a pure removal of the MBI; however, the final version of the EP should keep the MBI



# MiCA

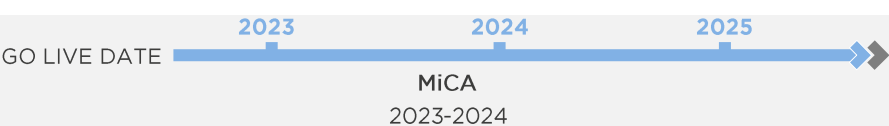
## Market in Crypto-Assets

### Description

MiCA aims to harmonise the European framework for different types of **cryptocurrencies and its coverage** is broad (issuance, trading, settlement, custody, and collateral management) for **digital assets not classified** by current regulations.

### Updates

After the vote on March 14, 2022, the proposed amendment to ban or restrict proof-of-work-based crypto assets, which would have effectively resulted in a **ban on Bitcoin (BTC)**, **was rejected.** The proposed regulation is due to come into force by **mid 2023**



# ESAP

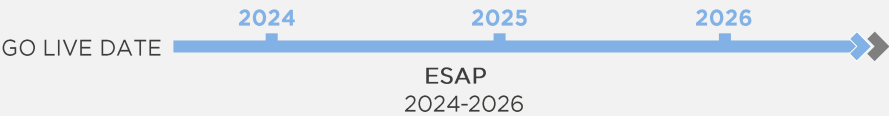
## European Single Access Point

### Description

The ESAP is intended to provide an easy **centralized point of access** to information about financial services, capital markets and sustainability, that entities and competent authorities are required to make public.

### Updates

The College of Commissioners adopted the proposals on 25 November 2021. The proposals consider the first submissions to ESAP being phased-in **between 2024 – 2026**.



# EMIR REFIT

## European Market Infrastructure Regulation

### Description

EMIR mandates reporting of **all derivatives to Trade Repositories** (TRs). TRs **centrally collect** and maintain the records of all derivative contracts. They play a central role in enhancing the transparency of derivative markets and reducing risks to financial stability.

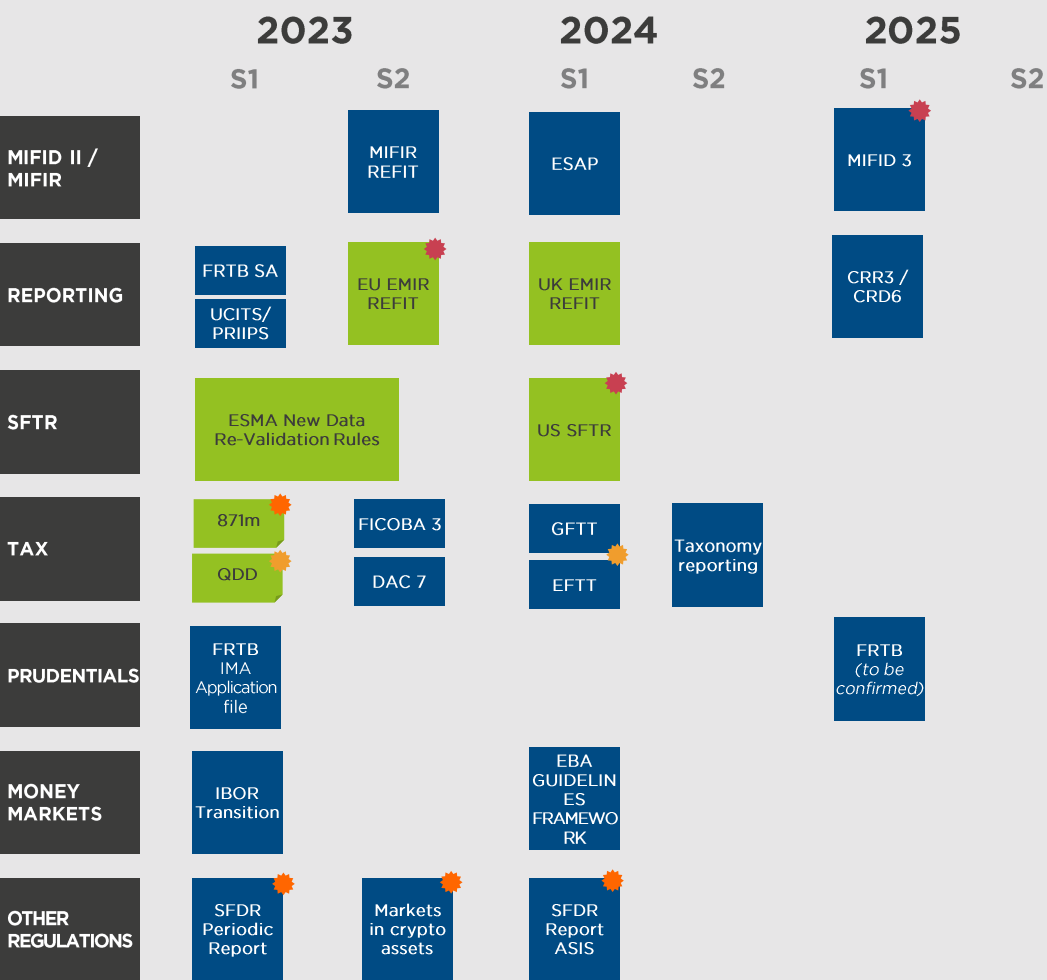
### Updates

Whilst the EMIR reporting regime is already in place, the challenges the EMIR Refit poses are significant:

- move to **ISO 20022**
- Introduction of the **new fields**
- changes to **reporting and reconciliation**



# DEALING WITH A HEAVY REGULATORY BURDEN



IMPACTS

HIGH MEDIUM LOW

REGIONS

EMEA ASIA AMER

# CONTACTS

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