



# Regulatory Digest

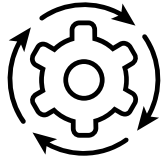
July 2022

Created by Be | Shaping the Future UK's  
Risk, Regulatory and Compliance team.

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## Executive Summary

The below is an executive summary of the key updates within the risk, regulatory and compliance industry during July 2022.



### Operational resilience

The Bank of England released a discussion paper which sets out how the supervisory authorities could use their proposed powers in the Financial Services and Markets Bill to assess and strengthen the resilience of services provided by 'critical third parties' to firms and FMIs.



### Regulatory compliance

Through the Banking Supervision Regulatory Consistency Assessment Programme, the Basel Committee monitors the timely adoption of regulations by its members, assesses the regulations' consistency with the Basel framework and examines the consistency of banks' calculation of the prudential ratios across jurisdictions.



### Risk management

Jointly, the PRA and the Bank of England published an Index of Prudential and Resolution Policies, which is a tool to help find prudential and resolution policies by topic area.



### Climate, ESG and sustainability

The Governing Council of the European Central Bank has decided to take further steps to include climate change considerations in the Euro system's monetary policy framework. It decided to adjust corporate bond holdings in the Eurosystem's monetary policy portfolios and its collateral framework, to introduce climate-related disclosure requirements and to enhance its risk management practices.

## Industry News

### | The Bank of England

#### **PRA Regulatory Digest – July 2022 – Climate and capital conference**

The Bank and the PRA are organising a conference on Wednesday 19 October and Thursday 20 October 2022, on climate change and capital. The objective of this conference is to facilitate discussion on the complex issues associated with adjusting the capital framework to take account of climate-related financial risks.



#### **It's the risk management, stupid! – speech by Anil Kashyap**

Anil Kashyap talks about the work to ensure UK banks and insurers understand the risks they face from climate change. He highlights how these firms need to improve the way they report climate risks. He also sets out the questions that management boards need to ask to keep firms on the right track.

#### **Publication of a new Prudential and Resolution Policy Index**

Jointly the PRA and the Bank of England published an Index of Prudential and Resolution Policies, which is a tool to help find prudential and resolution policies by topic area.



#### **Some lessons from the Crypto Winter – speech by Sir Jon Cunliffe**

Jon Cunliffe sets out what he thinks are the lessons to be learnt from the recent instability and losses in crypto markets – also called the 'crypto winter'.

He discusses how:

- Technology cannot remove all financial risks
- Regulators should continue and speed up their work
- Future regulation should be designed on the principle of 'same risk, same regulation'
- Appropriate regulation will support innovation

### **DP3/22 – Operational resilience: Critical third parties to the UK financial sector**

This discussion paper sets out how the supervisory authorities could use their proposed powers in the Financial Services and Markets Bill to assess and strengthen the resilience of services provided by 'critical third parties' (CTPs) to firms and financial market infrastructures, thereby reducing the risk of systemic disruption. The potential measures set out in this discussion paper would focus on material services that CTPs provide to the financial sector.



## **| The Basel Committee on Banking Supervision**

### **Basel Committee finds European Union largely compliant with its Net Stable Funding Ratio and large exposures framework global standards**

The Basel Committee published assessment reports on the implementation of the Net Stable Funding Ratio and large exposures framework in the European Union. Assessments find European regulations are largely compliant with the Basel Committee's global standards.

### **Regulatory Consistency Assessment Programme (RCAP): Assessment of Basel Committee's large exposures framework – European Union**

Through its RCAP, the Basel Committee monitors the timely adoption of regulations by its members, assesses the regulations' consistency with the Basel framework and examines the consistency of banks' calculation of the prudential ratios across jurisdictions. The RCAP also helps member jurisdictions to identify and assess the materiality of any deviations from the Basel framework.

## | Banks of International Settlements

### **A resilient transition to net zero**

This summarises remarks made by Pablo Hernández de Cos, Chair of the Basel Committee on Banking Supervision and Governor of the Bank of Spain, delivered at the International Economic Forum of the Americas, 28th edition of the Conference of Montreal.

### **Governor's Keynote Address at the International Conference on Financial Crime and Terrorism Financing 2022**

This summarises Tan Sri Nor Shamsiah Mohd Yunus's speech of Keynote address at the International Conference on Financial Crime.

### **The Economic Power of Sustainability and Energy Transition**

Lufthansa Cargo gives a speech at the Sustainability Conference 2022.



## | European Banking Authority (EBA)

### **EBA analyses the use of specific exemptions included in the large exposures regime**

The EBA published a report on the use of some exemptions included in the large exposures regime. The report analyses banks' use of the various exemptions from different perspectives and quantifies the impact of a potential removal of individual exemptions. Overall, the report shows which some of the assessed exemptions are widely used across the EU and the impact that their removal would have. In addition, some exemptions are relevant only for some countries or appear to be rarely used.

## | European Central Bank (ECB)

### **ECB takes further steps to incorporate climate change into its monetary policy operations**

The Governing Council of the ECB has decided to take further steps to include climate change considerations in the Eurosystem's monetary policy framework. It decided to adjust corporate bond holdings in the Eurosystem's monetary policy portfolios and its collateral framework, to introduce climate-related disclosure requirements and to enhance its risk management practices.

### **Climate shocks can put financial stability at risk, ECB/European Systemic Risk Board (ESRB) report shows**

The ECB and the ESRB published a joint report on how climate shocks can affect the European financial system. The findings show that climate risks can quickly spread, potentially harming companies and banks alike. The report adds further evidence on the systemic nature of climate risks and provides a foundation for a macroprudential policy response.



### **FSB Roadmap for addressing financial risks from climate change: 2022 progress report**

The G20 has asked the Financial Stability Board to deliver the first of its annual progress reports on the roadmap.

## | HM Treasury

### **Finance, resilience, net zero and nature**

A speech by Emma Howard Boyd, Chair of the Environment Agency and interim Chair of the Green Finance Institute. The Environment Agency delivers infrastructure that provides resilience to climate change. To avoid financial climate chaos, all infrastructure needs to be more resilient, so businesses and public sector organisations are being encouraged to assess their climate risks and develop plans in response. It has also been suggested that providing frameworks and legislation for sustainable disclosure allows everyone to compare like for like - and make informed choices. Green Finance Strategy 2.0 is an opportunity to help set the frameworks for more integration between resilience, reducing emissions and restoring nature.

## | UK Finance

### Climate Biennial Exploratory Scenario (CBES): Stress Testing for Climate Change

The recent CBES exercise was undertaken by the UK's largest banks to understand the potential impacts of transitional and physical climate change risk on their portfolios.

Dr Anil Kashyap has outlined the areas where improvements are required, including governance processes and climate risk modelling. Smaller firms will have more difficulty with climate risk modelling due to having less developed modelling capabilities, therefore will be more reliant on third parties. One major issue highlighted in this exercise is the missing data - given that financial institutions have only just started to collect non-standard information from their customers to properly understand the risks certain business and assets face from climate change.

## Contact

For more information on how we can help with your ESG, climate and risk initiatives, please get in touch.

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With many years of experience in the international financial services industry, Alessandro has a wealth of experience in risk, regulation and compliance, gained through international roles, both as a consultant as well as a banker, including CRO roles in the UK and CH. His experience ranges from strategy and governance, AI / ML risk applications, risk transformation, system implementations to compliance and regulatory assurance.

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