

Financial Regulation Advisory

Financial Services Regulation and Compliance - Banking and Payments July 2024

Domestically, CBI update guidance note on completing an application for authorisation as a credit servicing firm and/or credit servicer. At European level, EBA publishes a consultation paper to overhaul its resolution planning reporting framework.

15 Aug 2024

Domestic

CBI update guidance note on completing an application for authorisation as a credit servicing firm and/or credit servicer

On 18 July 2024, the Central Bank of Ireland (**CBI**) updated its guidance note on completing an application for authorisation as a credit servicing firm and/or credit servicer.

The guidance note is updated to include the European Union (Credit Servicers and Credit Purchasers) Regulations 2023 (**2023 Regulations**). The 2023 Regulations provide that a credit servicer who has authorisation in one EU Member State will be permitted to passport and provide those services on a cross-border basis into another EU Member State.

The guidance note also provides that any firm seeking authorisation as a credit servicing firm must ensure that it satisfies the CBI's 2019 authorisation requirements and standards for credit servicing firms (**requirements and standards**). Where a firm is unable to satisfy the CBI that it can fulfil the requirements and standards on an ongoing basis, the CBI will not grant authorisation.

European

Travel rule guidelines issued by EBA aiming to tackle money laundering and terrorist financing

On 4 July 2024, the European Banking Authority (**EBA**) issued new guidelines on the 'travel rule', i.e. the information that should accompany transfers of funds and certain crypto-assets. The guidelines were issued under Regulation (EU) 2023/1113 of the European Parliament and of the Council of 31 May 2023 on information accompanying transfers of funds and certain crypto-assets and amending Directive (EU) 2015/849 which entered into force in June 2023.

The guidelines specify the information that is required to accompany a transfer of funds or crypto-assets. They also set out the steps that payment service providers (**PSPs**), intermediary PSPs (**IPSPs**), crypto-asset service providers (**CASPs**) and intermediary CASPs (**ICASPs**) should take to detect incomplete information, and what they should do in the circumstances where a transfer of funds or a transfer of crypto-assets is missing the required information.

The guidelines will apply from 30 December 2024 and will repeal the 'joint guidelines under Article 35 of Regulation (EU) 2015/847 on the measures PSPs should take to detect missing or incomplete information on the payer or the payee, and the procedures they should put in place to manage a transfer of funds lacking the required information'.

EBA launches information consultation on 2025 EU-Wide stress test methodology

On 5 July 2024, the EBA published its draft methodology, templates, and guidance for the 2025 EU-wide stress test, for informal consultation. This exercise seeks feedback from the banking industry which will provide the foundation for the 2025 Supervisory Review and Evaluation Process. 68 banks from the EU and Norway are set to participate in the exercise, covering 75% of the EU banking sector.

The methodology includes certain modifications to the methodology used in 2023, namely, the integration of Regulation (EU) 2024/1623 (Capital Requirements Regulation (**CRR3**)). It also takes into consideration the centralisation of net interest income (**NI**) projections and implements advancements in the market risk methodology to increase risk sensitivity.

The final methodology is set to be published by the EBA towards the end of 2024, with the exercise due to launch in January 2025 and results to be released by July 2025.

EBA launch consultation on criteria to assess the materiality of CVA risk exposures arising from securities financing transactions

On 8 July 2024, the EBA launched a consultation on draft regulatory technical standards (**RTS**) to specify the conditions and the criteria to assess whether the credit valuation adjustment (**CVA**) risk exposures arising from fair-valued securities financing transactions are material, as well as the frequency of that assessment.

The draft RTS proposes the use of a quantitative threshold approach in determining the materiality of CVA risk exposures arising from fair-valued securities financing transactions. Interested stakeholders are invited to provide feedback on the current draft RTS until the 8 October 2024.

EBA publishes consultation paper to amend its technical standards on the joint decision process for internal model authorisation

On 16 July 2024, the EBA launched a consultation paper on amending its implementing technical standards (**ITS**) on the joint decision process for internal model authorisation under the Regulation (EU) 575/2013 (Capital Requirement Regulation (**CRR**)).

The current ITS illustrate the process to help competent authorities work together while undertaking their assessments and preparing contributions to the joint decision on institutions' application to use internal models for prudential purposes. The proposed amending ITS, aims to incorporate changes to the EU

legal framework, including the scope of application for internal models under Regulation (EU) 2024/1623 (**CRR III**) and update the references to the ITS and RTS on the functioning of supervisory colleges.

The consultation is set to run until 16 October 2024.

EBA release statement on the application of CRR 3 in the area of credit risk for the Internal Ratings Based Approach

On 17 July 2024, the EBA released a statement in which it welcomed the entry into force of the new Banking Package (Directive (EU) 2024/1619 and Regulation (EU) 2024/1623) which aims to enhance the risk sensitivity of the standardised approaches. It also introduces adequate safeguards to internal modelling with a view to reducing undue variability of model outcomes.

The EBA stated that an ex-ante notification should be made to Competent Authorities where rating systems are impacted by a reduction in the application range. The EBA has advised institutions to analyse and remediate any performance issues in rating systems, particularly for material and complex systems.

The EBA has also advised that institutions should inform their competent authorities about their implementation plan in relation to the foreseen rating system updates that are linked to future EBA supervisory products.

Eurosystem sets policy on access by non-bank payment service providers to its central bank payment systems

On 19 July 2024, the Eurosystem defined a harmonised policy to allow non-PSPs such as payment institutions (**PIs**) and electronic money institutions (**EMIs**) to access central bank-operated payment systems, including TARGET. This follows the enactment of Regulation (EU) 2024/886 (**Instant Payment Regulation**).

From April 2025, non-bank PSPs meeting certain requirements will be able to access TARGET, including T2 (for settling payments) and TIPS (for settling instant payments). The requirements will be set out and come into effect through the TARGET Guideline which will mirror the requirements currently applicable to credit institutions. They will aim to ensure the smooth operation of T2 and TIPS by only granting access to non-bank PSPs which have the relevant safeguards in place and have demonstrated their ability to meet the operational and technical requirements already applicable to current participants.

The Instant Payments Regulation also amends the Payment Services Directive and introduces the option for non-bank PSPs to safeguard users' funds in an account held with a central bank, subject to the discretion of that central bank.

EBA Peer Review Report on the definition of default published

On 22 July 2024, the EBA published its peer review on its guidelines on the application of the definition of default (the **report**). The report concluded that this area is well supervised particularly in relation to the monitoring of internal ratings-based approach (**IRBA**) credit institutions. Supervision in this area using the standardised approach (**SA**) was also found to be good but more varied.

The report also identified certain areas of improvements for certain competent authorities as well as informing supervisors of best practices in the area. These include:

- considering and documenting the elements used to determine the basis of risk-based supervision of the definition of default and/or the supervisory review and evaluation process (**SREP**) assessments
- potential alignment of self-assessment questionnaires on the definition of default submitted to banks
- assessment of the appropriate frequency and depth of assessments
- establishing minimum checks on IT systems used by credit institutions to calculate elements of the definition of default
- alignment of remedial actions in the context of local versus cross-border institutions

Commission published Q&A on Instant Payment Regulations implementation

On 23 July 2024, the European Commission published the Q&A on the Regulation (EU) 2024/886 (Instant Payment Regulations (**IPR**)) implementation clarifying the requirement of the IPR. The IPR entered into force in April 2024 with the first set of requirements set to be complied by payment service providers by 9 January 2025. The publication of the Q&A follows two workshops held by the Commission Directorate-General for Financial Stability, Financial Services and Capital Markets Union in April and May 2024 where oral clarifications were provided to over 200 questions which have now been consolidated in the Q&A document.

The Q&A document is divided into six sections that deal with questions on:

- the scope of the IPR (Section A)
- the requirements relating to carrying out instant credit transfers set out in Article 5a (Section B)
- the service to ensure verification of the payee in the case of credit transfers required under Article 5c (Section C)
- the financial sanctions screening obligations set out in Article 5d (Section D)
- other provisions in the IPR, including in relation to penalties and reports (Section E)
- amendments to PSD2 and the Settlement Finality Directive (Section F)

ECB launches consultation on governance and risk culture

On 24 July 2024, the ECB launched a consultation on its draft guide on governance and risk culture which is set to replace the 2016 SSM supervisory statement on governance risk appetite. It should also provide further clarity regarding supervisory expectations and share good practices for banks' internal governance.

The guide also clarifies supervisors' expectations regarding how management bodies and committees should be composed and function. It outlines the roles and responsibilities of the internal control functions, emphasises the importance of risk culture and sets out expectations regarding the risk appetite frameworks of banks.

The consultation is set to run until 16 October 2024 after which the ECB will publish the feedback along with the final guide.

Draft legislation to postpone new rules on market risk under CRR 3 for one year

On 24 July 2024, the European Commission adopted a draft Commission Delegated Regulation to postpone, by one year, the date of application of the Basel III fundamental review of the trading book (**FRTB**) standards for the calculation of own funds requirements for market risk under CRR 3 (Regulation (EU) 2024/1623). The FRTB standards will apply from **1 January 2026**.

EBA launch consultation on technical standards for uniform reporting under the Single Euro Payments Area Regulation

On 31 July 2024, the EBA launched a public consultation on draft ITS for uniform reporting templates in relation to the level of charges for credit transfers and share of rejected transactions under Regulation (EU) 260/2012 (Single Euro Payments Area Regulation (**SEPA Regulation**)).

The ITS sets out templates which aim to standardise reporting from PSPs to their national competent authorities (**NCA**s). This standardisation will enable the European Commission to monitor the effects of changes to the SEPA Regulation on the fees paid by customers of PSPs for payment accounts, as well as instant and non-instant credit transfers.

The consultation closes on 31 October 2024.

EBA publishes consultation paper to overhaul its resolution planning reporting framework

On 30 July 2024, the EBA launched a public consultation on its draft ITS, which aim to overhaul the EBA resolution planning reporting framework. The ITS aims to ensure that resolution authorities have the data they require, which will improve the usability of this reporting framework and will enhance the monitoring of resolution planning.

One of the main proposals outlined in the consultation paper is the change in the submission reporting deadline from April 30 to March 21. The proposals also expand the scope of entities for which data is collected.

The consultation is set to run until 30 October 2024.

ECB publishes results from June 2024 consumer expectations survey

On 26 July 2024, the ECB published the results from the ECB consumer expectations survey for June 2024. The results concluded that compared with May 2024:

- median perceived consumer inflation declined noticeably over the previous 12 months, while median inflation expectations for the next 12 months and for three years ahead remained unchanged
- expectations for nominal income over the next 12 months increased, while spending growth expectations over the next 12 months remained unchanged
- expectations for economic growth over the next 12 months became more negative, while the expected unemployment rate in 12 months' time decreased
- expectations for growth in the price of homes over the next 12 months increased slightly, while expectations for mortgage interest rates 12 months ahead edged down

The release of the customer expectations survey results for July is scheduled for 23 August 2024.

ECB complete cyber resilience stress test

On 26 July 2024, the ECB announced the conclusion of its cyber resilience stress test. It was launched in January 2024 to determine how banks would respond to and recover from a severe but plausible cybersecurity incident. Ensuring detection of cyber risks and addressing deficiencies in banks' operational resilience frameworks, including those stemming from cyber risks, is one of the ECB's SSM supervisory priorities for 2024-2026.

The stress test involved 109 banks directly supervised by the ECB. All banks involved had to answer a questionnaire and submit documentation for analysis with a sample of 28 banks chosen to undergo more extensive testing. These 28 banks were asked to perform an actual IT recovery test and provide evidence that it had been successful, and they were visited on-site by supervisors. Overall, the stress test showed that banks have response and recovery frameworks in place, but areas for improvement remain. The results will feed into the 2024 Supervisory Review and Evaluation Process.

EBA publishes: ITS on supervisory reporting framework

On 9 July 2024, the EBA published the final draft ITS amending Commission Implementing Regulation (EU) 2021/451.

The ITS includes new or amended requirements in relation to the output floor, credit risk, market risk, CVA risk, leverage ratio and on the transitional treatment of exposures to crypto-assets. Minimum reporting requirements on operational risk are also included in the ITS with further reporting requirements due to be finalised by Q4 2024 along with a new framework for the business indicator for operational risk.

The ITS is the first reporting deliverable of the Basel III framework. During Q4 2024, the EBA will publish a technical package that institutions will use to submit this supervisory reporting information to supervisors.

Basel Committee approves disclosure framework and capital standard for banks' crypto-asset exposures

On 3 July 2024, the Basel Committee on Banking Supervision (**BCBS**) agreed the disclosure framework for banks' crypto-asset exposures and to make targeted amendments to its crypto-asset standard. It also agreed to update the interest rate shock sizes and associated methodology in its interest rate risk in the banking book standard and to consult on updated principles for the sound management of third-party risk.

The finalised disclosure framework for banks' crypto-asset exposures includes a standardised set of public tables and templates covering banks' crypto-asset exposures. The framework was published on 17 July 2024 and is set to apply from 1 January 2026.

The BCBS also approved a set of adjustments to the specified interest rate shocks in the interest rate risk in the banking book (**IRRBB**) standard. The adjustments were published on 16 July 2024 and are set to apply from 1 January 2026.

The BCBS also decided to launch a consultation on principles for the sound management of third-party risk. The principles would supersede the current guidance on outsourcing in financial services with respect to the banking system. The consultation was launched on 9 July 2024 and is set to run until 9 October 2024.

EBA identifies key topics for supervisory attention for 2025

On 8 July 2024, the EBA published the European Supervisory Examination Programme (**ESEP**) for 2025. The ESEP outlines the key areas of focus for supervisory attention across the European Union.

The topics identified for 2025 include:

- testing and adjusting to increasing economic and financial uncertainties
- digital challenges
- transitioning towards Basel III and the EU banking package implementation

Competent authorities are to reflect these identified areas of focus in their priority setting and implement them in their day-to-day supervisory activities.

The EBA also noted that the 2023 priorities were consistently applied by most competent authorities. These priorities were:

- macroeconomic and geopolitical risks
- operational and financial resilience
- transition risks
- money laundering/terrorism financing (ML/TF) risks in the SREP and internal controls and governance)

For more information on these topics please contact any member of A&L Goodbody's [Financial Regulation Advisory](#) team.

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