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Digital transformation – ECB publishes speech given by Pentti Hakkarainen on the digital transformation of the European banking sector

13 January 2022 - Pentti Hakkarainen, member of the Supervisory Board of the European Central Bank (ECB), gave a speech on the need for the digital transformation of banks at the Institute for Financial Integrity and Sustainability.

He first speaks on the advantages of technological changes in the banking sector and the role of the supervisor and regulators. He explains what he considers to be the most relevant technological changes in the banking sector and the advantages for banks and their customers. Such changes include online platforms and apps, but also the extensive data that can now be collected and the development of algorithms. These changes have allowed banks and newer fintech entrants to provide more tailored options to individual customers, greater product choice, cheaper and more efficient services, as well as, perhaps most importantly, providing customers with access to financial services who would not have traditionally been given that access (e.g. by using data and algorithms to perform loan assessments where customers lack a credit history).

He goes on to discuss the new risks these changes bring for banks, including heavy reliance on IT services and vulnerability to cyber risk. As banks need sustainable business models to be ready for these new risks, he outlines the risks he sees from the supervisory perspective and the role supervisors can play in mitigating those risks.

Overall, he is optimistic about these technological changes and pleased to see this digital transformation is taking place. He sees benefits for customers, as it will give banks the opportunity to provide more efficient and tailor-made services and products to their customers. Banks will be encouraged to pursue useful forms of innovation and invest in further digital progress, as these changes will lead to a more competitive banking sector.

Press release

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CRR - ECB publishes opinion on proposed regulation on MREL and TLAC amendments

17 January 2022 - The ECB has published an opinion (CON/2022/3) (dated 13 January 2022) on the legislative proposal for a regulation making targeted amendments to the Capital Requirements Regulation (575/2013/EU) (CRR) relating to total loss absorbing capacity (TLAC) and the minimum requirement for own funds and eligible liabilities (MREL) (the Proposed Regulation). The European Commission adopted a legislative proposal for the Proposed Regulation in October 2021. The Proposed Regulation makes consequential amendments to the Bank Recovery and Resolution Directive (2014/59/EU) (BRRD).

The ECB supports the proposed Regulation, and invites the EU legislative bodies to monitor and assess the implementation of the amendments to the CRR, to:

- assess the interplay between the BRRD and the CRR; and
- prevent global systemically important institutions (G-SIIs) from engaging in regulatory arbitrage between single point of entry (SPE) and multiple point of entry (MPE) resolution strategies based on the MREL or TLAC target level.

The ECB also suggests minor technical adjustments to the Proposed Regulation, aimed at clarifying the interpretation of the legal text and ensuring consistency in the terminology used.

[Opinion of the European Central Bank of 13 January 2022 on a proposal to amend Regulation 575/2013/EU on prudential requirements for credit institutions and investment firms with respect to resolution \(CON/2022/3\)](#)

Economy-wide climate stress test - ECB announces launch and publishes macro-financial scenarios

27 January 2022 - The ECB has launched the 2022 Climate Risk Stress Test (CST) exercise for EU banks and has published the details of the macro-financial scenarios that it will apply. The 2022 CST aims to assess banks' resilience to an adverse economic shock, the results of which will inform the 2022 Supervisory Review and Evaluation Process (SREP). The CST will take place between March and July 2022 and will be conducted alongside other ECB supervisory initiatives on environmental risk in 2022, including a thematic review of banks' climate-related and environmental risk management practices, the results of which will be included in the SREP.

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The ECB's macro-financial scenarios for the 2022 CST are largely based on Phase II of the Network for Greening the Financial System's (NGFS) model outputs, released in June 2021.

Macro-financial scenarios for the 2022 climate risk stress test

Climate risk stress test templates

Letter to banks: Information on participation in the 2022 ECB Climate Risk Stress Test

Press release

Please see the 'Single Supervisory Mechanism (SSM)' section below for an item on the ECB's decision on the transmission of supervisory information.

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SINGLE SUPERVISORY MECHANISM (SSM)

SSM Regulation - ECB decision on transmission of supervisory information published in OJ

31 January 2022 - Decision EU/2022/134 of the European Central Bank (ECB) has been published in the Official Journal of the European Union (OJ). The Decision lays down common rules on the transmission by the ECB of supervisory information to authorities and bodies for the purpose of carrying out the tasks conferred on it by the Single Supervisory Mechanism Regulation (1024/2013/EU) (SSM Regulation).

The Decision will enter into force on 5 February 2022.

Decision (EU) [2022/134] of the European Central Bank of 19 January 2022 laying down common rules on the transmission by the European Central Bank of supervisory information to authorities and bodies for the purpose of carrying out tasks conferred on it by Council Regulation (EU) No 1024/2013 (ECB/2022/2)

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SINGLE RESOLUTION MECHANISM (SRM)

Priorities for 2022 - SRB publishes press release

18 January 2022 - The Single Resolution Board (SRB) has announced its priorities for 2022, following the publication of its 2022 work programme in November 2021.

The three key priorities for 2022 are:

- minimum requirements for own funds and eligible liabilities (MREL) build up: the SRB expects most banks under its remit to respect the January 2022 intermediate MREL target. All banks are encouraged to “continue issuing” to build up their MREL in this favourable market with record low interest rates. The banks know the requirements they must fulfil until 2024 and it is up to them to decide on buffers to keep them safe;
- separability and reorganisation plans: for mid-sized banks, the SRB is prioritising work on transfer tools, separability and adjustments of MREL for such transfer tools; and
- information systems and management information systems: the SRB observes that, while some banks have stepped up their efforts in this area, particularly in light of COVID-19, others are lagging behind. IT and cyber risks and their management, particularly regarding the timely availability of data, must be a key priority for banks.

In addition, the SRB confirms that the deadline for banks to be compliant with the MREL target and for having reached resolvability in line with the SRB’s ‘Expectations for Banks’ document remains end of 2023.

Priorities for 2022 - the SRB’s view

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Our European Financial Institutions Group, consisting of ‘Best Friends’ BonelliErede, Bredin Prat, De Brauw Blackstone Westbroek, Hengeler Mueller, Slaughter and May and Uría Menéndez, brings together market-leading lawyers with corporate and financing experience and financial regulatory skills.

We have unrivalled coverage of regulatory developments in the EU, which enables us to provide pure regulatory advice on the interpretation and application of EU directives and regulations. We also have strong connections with the best financial institutions lawyers in the United States, Asia and South America.

Our many years of experience of advising a diverse range of major financial institutions allows us to offer the most incisive advice available.

If you would like to discuss any of the developments in this update, or any other financial regulatory matter, please contact one of the following or your usual EFIG contact.

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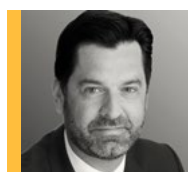
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