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Solvency 2 News, October 2021

Dear members and friends,

We will start with the second report on insurance failures and near misses by the European Insurance and Occupational Pensions Authority (EIOPA).

It aims at enhancing supervisory knowledge on the prevention and management of insurance failures, based on the information contained in the EIOPA database, which comprises a sample of 219 affected insurance undertakings in 31 European countries, dating back from 1999 to 2020.

Failures and near misses in insurance

Overview of recovery and resolution actions and cross-border issues

The present paper strives to provide a better understanding of the kind of actions that are taken by insurers and NCAs when the companies are entering into two specific stages of the crisis management flow:

- i. The recovery phase (going-concern basis). This covers measures taken before the breach of the capital requirements (more specifically

known as preventive measures) and measures taken after the breach of the capital requirements.

- ii. The resolution phase (gone-concern basis). This phase refers to actions that taken by the authorities in charge of the resolution and/or liquidation process.

A number of additional issues such as potential policyholders' loss, external funding and crossborder aspects featuring insurers' failures and near misses are also studied here.

EIOPA commenced in 2014 to create a dynamic database of insurance failures and near misses. The objective was to gather relevant information from national competent authorities (NCAs) on relevant cases of insurance failures and near misses occurred in the European Economic Area (EEA), by means of gathering valuable information on the causes and early identification of insurance failures or near misses, as well as gauging their impact and the supervisory actions taken.

The first part of the current report is devoted to an analysis of the referred recovery and resolution actions adopted. Overall, the main findings suggest that the most common measures taken by the insurers and/or requested by the NCAs before and during the recovery phase, as documented in the EIOPA database, were:

- i. Presenting a recovery plan to restore compliance with the requirements; or (seldom) activating the existing pre-emptive recovery plan.

- ii. Requesting cash injections by shareholders or the parent company.

- iii. Require the reinforcement of internal governance arrangement and risk management.

- iv. Require commitment and/or actions from shareholders to support the company.

- v. Request additional provisioning (i.e. building up a higher level of technical provisions).

With regard to the resolution phase, the most common measures used by the NCAs were the following:

- i. Discontinue the writing of new business and continue administering the existing contractual policy obligations for in-force business (run-off),

- ii. Liquidation (i.e. the closure and orderly liquidation of the whole or part of a failing company),

- iii. Sale of all or part of the insurers' business to a private purchaser.

Policyholders in cases of insurance failures have not been immune to losses. Indeed, in the EIOPA's database, the policyholders in resolution suffered a loss of some kind in 30% of the cases.

Regarding the external funding (public funds or funds received by an Insurance Guarantee Scheme), the available evidence indicates that in 33% of the failures external injections were used.

When this was the case, the amount of external funds required to be injected or allotted to the insurer, was equal or higher than 20% of the total assets of such insurer in 47% of the cases.

Concerning the second part of the report, the analysis revolves around inspecting the most common issues arising on the resolution or liquidation of cross border insurance failures.

The continued increase of cross-border activity in insurance stresses the importance of a harmonised approach in protecting policyholders, especially considering the degree of internationalisation in the insurance sector.

The need to have in place an adequate system of policyholder protection appears clear in the event of cross-border insurance failures.

The available evidence show that the most common cross-border issue identified by the NCAs, in the cases of cross-border insurance failures, is related to the current fragmentation in the landscape of the national IGSs in the EU.

EIOPA has long argued that achieving a minimum degree of harmonisation in the field of IGSs is essential to provide a minimum level of protection to policyholders against the effects of an insurance failure.

Furthermore, due to the lack of harmonisation in the field of IGSs, there may be cases where an IGS is not able to neither cover nor compensate the losses of policyholders residing outside its own jurisdiction.

Depending on their place of residence and the geographical coverage, policyholders could be treated differently, which is an undesirable situation from the perspective of policyholder protection and internal market.

As documented in the second part of the report, there have not been many cross-border insurance failures reported yet (such as those insurers operating from abroad via freedom to provide services, FoS or freedom of establishment, FoE). However, the losses suffered by the policyholders in these cases seem to occur more often than in the cases of domestic insurance failures.

As a way to solve this it appears even more decisive now to have in the EU a recovery and resolution framework in place, as well as a minimum harmonised network of IGSs.

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To read more: https://www.eiopa.europa.eu/document-library/report/failures-and-near-misses-insurance_en

European Insurance Overview 2021

The Annual European Insurance Overview is published by EIOPA as an extension of its statistical services in order to provide an easy-to-use and accessible overview of the European (re)insurance sector.

The report is based on annually reported Solvency II information. This ensures that the data has a high coverage in all countries and is reported in a consistent manner across the EEA.

The report is objective, factual and data driven and does not contain analysis or policy messages. All indicators used in the report are calculated from the reported data from undertakings.

While the topics and indicators covered is intended to be relatively stable over time, the report will be adapted to respond to changes in micro prudential and supervisory priorities.

It will therefore support the supervisory community and industry with highly relevant and easily-accessible data at European level.

This report is based on Annual reporting for 2020 and as such UK are included, any EEA figures will be shown as EEA + UK.

The report is published with all charts data available for download in separate excel files.

To read more:
https://www.eiopa.europa.eu/document-library/insurance-overview-report/european-insurance-overview-2021_en

Reports on July and August Actions - Fighting COVID-19 Disinformation Monitoring Programme

The Commission published the latest reports that platform signatories of the Code of Practice on Disinformation issued about their ongoing efforts to limit COVID-19 and vaccine disinformation. As the Programme switched to a bimonthly reporting, the actions reported today cover the months of July and August.

The reports are delivered in the context of the COVID-19 disinformation monitoring programme set up under the 10 June 2020 Joint Communication. You may visit:
https://ec.europa.eu/commission/presscorner/detail/en/ip_20_1006

https://ec.europa.eu/commission/presscorner/detail/en/ip_21_2585

European Commission - Press release

Coronavirus: EU strengthens action to tackle disinformation

Brussels, 10 June 2020

Today, the Commission and the High Representative are assessing their steps to fight disinformation around the coronavirus pandemic and are proposing a way forward. This follows the tasking by European leaders in March 2020 to resolutely counter disinformation and reinforce resilience of European societies. The coronavirus pandemic has been accompanied by a massive wave of false or misleading information, including attempts by foreign actors to influence EU citizens and debates. The Joint Communication analyses the immediate response and proposes concrete action that can be quickly set in motion.

European Commission - Press release

Commission presents guidance to strengthen the Code of Practice on Disinformation

Brussels, 26 May 2021

Today, the Commission publishes its guidance on how the Code of Practice on Disinformation, the first of its kind worldwide, should be strengthened to become a more effective tool for countering disinformation.

It sets out Commission expectations, calls for stronger commitments by the signatories and foresees a broader participation to the Code. Based on a robust monitoring framework and clear performance indicators, signatories should reduce financial incentives to disinformation, empower users to take an active role in preventing its spread, better cooperate with fact-checkers across EU Member States and languages, and provide a framework for access to data for researchers.

The results of the COVID-19 Disinformation Monitoring Programme are also feeding into the revision of the Code of Practice on Disinformation, in

particular into the design of the monitoring framework for the strengthened Code.

Fighting COVID-19 vaccines disinformation

Platforms report on their updated policies and initiatives to reduce the spread of COVID-19 vaccines disinformation in July and August, for example:

- **Twitter** reports about updating its Public Service Announcement (PSA) carousels, which appear on top of users feed with new content and more information on COVID-19 variants. The COVID-19 vaccines PSA prompt directs people to country-specific Twitter Moments containing authoritative information around COVID-19 vaccines. Also, Twitter launched a pro bono promoted feature in France that appears in "trends" to support the vaccination campaign during the fourth wave of COVID-19, which received 11.2 million impressions and 20.2K engagement.

- **TikTok** introduced a new tool called "TopView" positioning, meaning that the videos placed in this category appear when users open the app and they are sound-on videos with full screen cover. TikTok reports offering this tool to the French government vaccination campaign in August, which generated 9 million impressions, combined with President Macron directly answering users questions on the channel. TikTok reports that videos tagged with the COVID vaccine tag steadily increased across Europe, increasing from to 114368 in June to 124851 in July and 130892 in August.

- **Microsoft** keeps on showing a vaccine tracker on Bing, indicating the progress of vaccination in individual countries and globally. LinkedIn's official page on COVID-19 and vaccines is regularly updated to provide authoritative information and prevent misinformation on vaccines. In July and August, the coverage has been extended to include official information about vaccines and vaccination, about vaccination being opened to teenagers in France and about vaccination within companies in Italy.

- **Google** are now expanding access for government organisations to promote COVID-19 content compliant to Google's Personalised Advertising Policy, including general COVID-19 vaccine information and updates on the latest COVID-19 protocols. YouTube publicly announced in September that it will ban all anti-vaccine misinformation. As the announcement was not included in the current report, we are looking forward to reading further details on it in the next instalment of the reports.

- **Facebook** reports that in July it has extended its previous partnership in France to provide educational videos to combat COVID-19 misinformation. The campaign launched five new educational videos about applications, tools, tips and methods to help verify information, also in the form of videos and images, and conduct online research.

Further reporting for July and August

The reports provide further information illustrating actions taken to fight COVID-19 related disinformation and the impact of these actions through July and August 2021.

Some examples from the reports:

- **Twitter** reports launching a collaboration with Reuters and the Associated Press (AP) in August. Seeking to elevate credible information in real time in emerging conversations, the collaboration will increase the amount of contextual information provided to users on trending issues. The partnership will initially focus on English-language content.

- **TikTok's** report shows that while the number of videos tagged with the Vaccine tag keep on increasing, the number of videos with just the COVID tag drop to 1661 in July and 1261 in August.

- **Microsoft** reports that the Bing COVID experience had 2400084 views in the EU in July, in line with the June numbers, and an almost 50% increase in August (4710491 views, + 2310407 compared to July). The report shows that in July Microsoft Advertising reaching users in the EU had a huge drop in the number of ads blocked for violating its ads policies (including on COVID-19 and vaccines), falling to 286485 (-1297396 from June). In August the trend reversed, with 5448845 ads blocked for violating Microsoft advertisings policies, the highest since the beginning of the COVID-19 Disinformation Monitoring Programme.

- **Google** reported taking action against 16479 URLs on AdSense in July and August, an increase compared to June (+1584), with the most remarkable increase in actions taken in France (+1003 compared to June). At the same time, the number of ads and ad accounts rejected for violation of COVID advertising policies are in line with those reported in July, with a small increase in blocked accounts (+10).

- **Facebook** reports that during the month of July over 110000 pieces of content in the EU were removed for violating COVID-19 and vaccine misinformation policies on Facebook and Instagram (+ 34000

compared to June). In August, this number increased (+ 40000 compared to July), reaching over 160000 pieces of content.

To read more: https://digital-strategy.ec.europa.eu/en/library/reports-july-and-august-actions-fighting-covid-19-disinformation-monitoring-programme

ESMA unveiled its workstreams for 2022. What made the cut?

SPOTLIGHT ON MARKETS

Cloud outsourcing and financial stability risks

On 1 September, ESMA published its second Trends, Risks and Vulnerabilities (TRV) Report of 2021.

One of its in-depth articles analyses the growing use of cloud service providers (CSPs) by financial institutions and how the concentration of those providers can create financial stability risks in case of outage.

The analysis suggests that CSPs need to be significantly more resilient than firms to improve the safety of the financial system.

In financial settings where only longer outages cause systemic costs, the results suggest that CSPs can best address systemic risks by strongly reducing the time it takes to resolve incidents, rather than by reducing their frequency.

The analysis also shows that using a back-up CSP successfully mitigates the systemic risk caused by CSPs.

Increasing trend in the use of CSPs

While cloud computing is still a topic of research, it has become key to the digital economy.

Cloud computing is an innovation that allows for the use of an online network (the cloud) of hosting processors to increase the scale and flexibility of computing capacity.

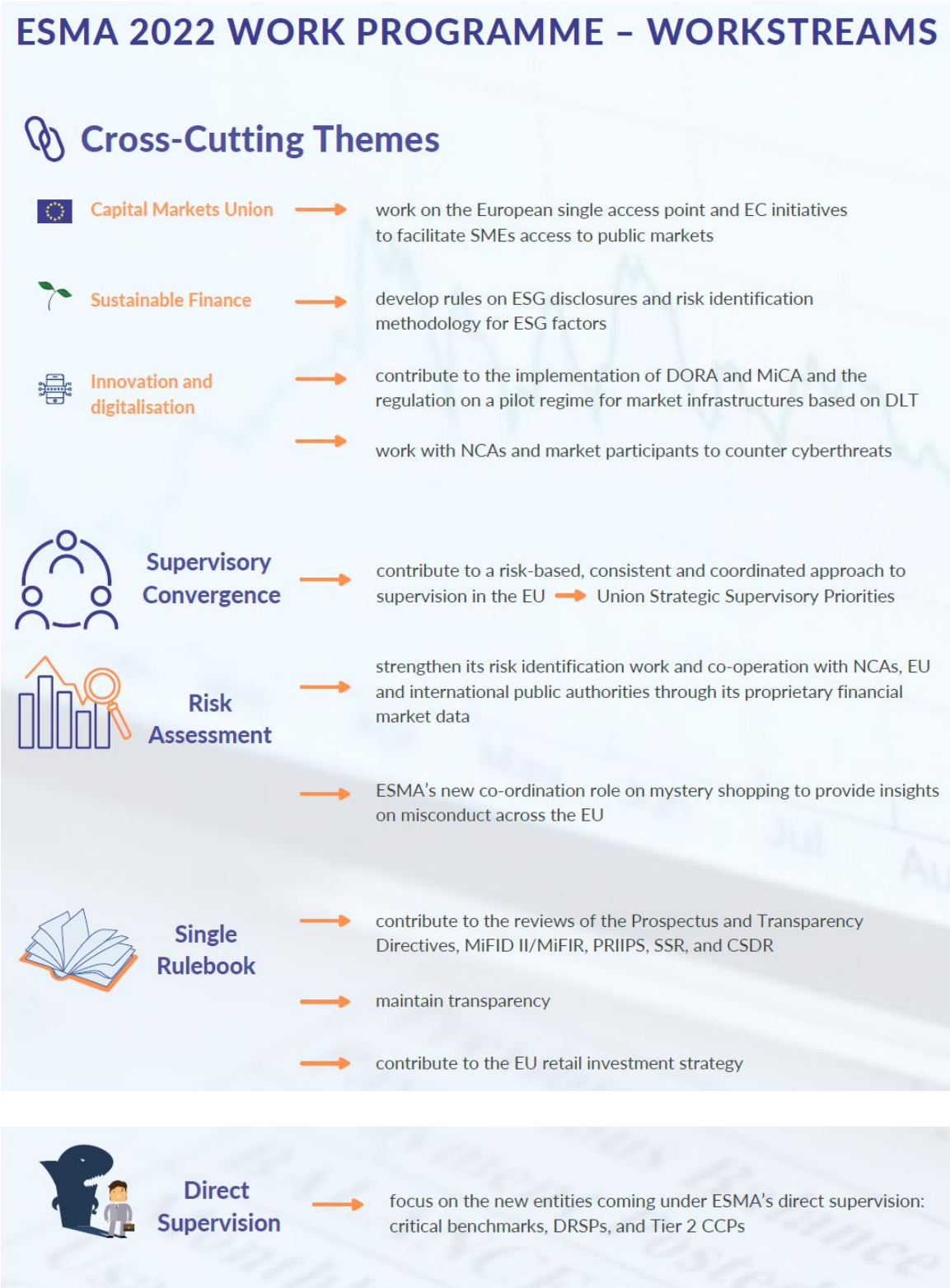
The use of cloud services by financial institutions has risen in recent years, as firms are increasingly outsourcing parts of their IT infrastructure.

The increasing trend has been further accelerated by the COVID-19 pandemic, as firms have had to set up remote working facilities.

There are many benefits associated with using cloud computing in the financial system. For example, cloud computing can lead to reductions in the cost of IT development and maintenance, increased flexibility and operational efficiency, enhanced information security.
In turn, this can increase the resilience of financial institutions, as they invest heavily in security and spread their infrastructures across

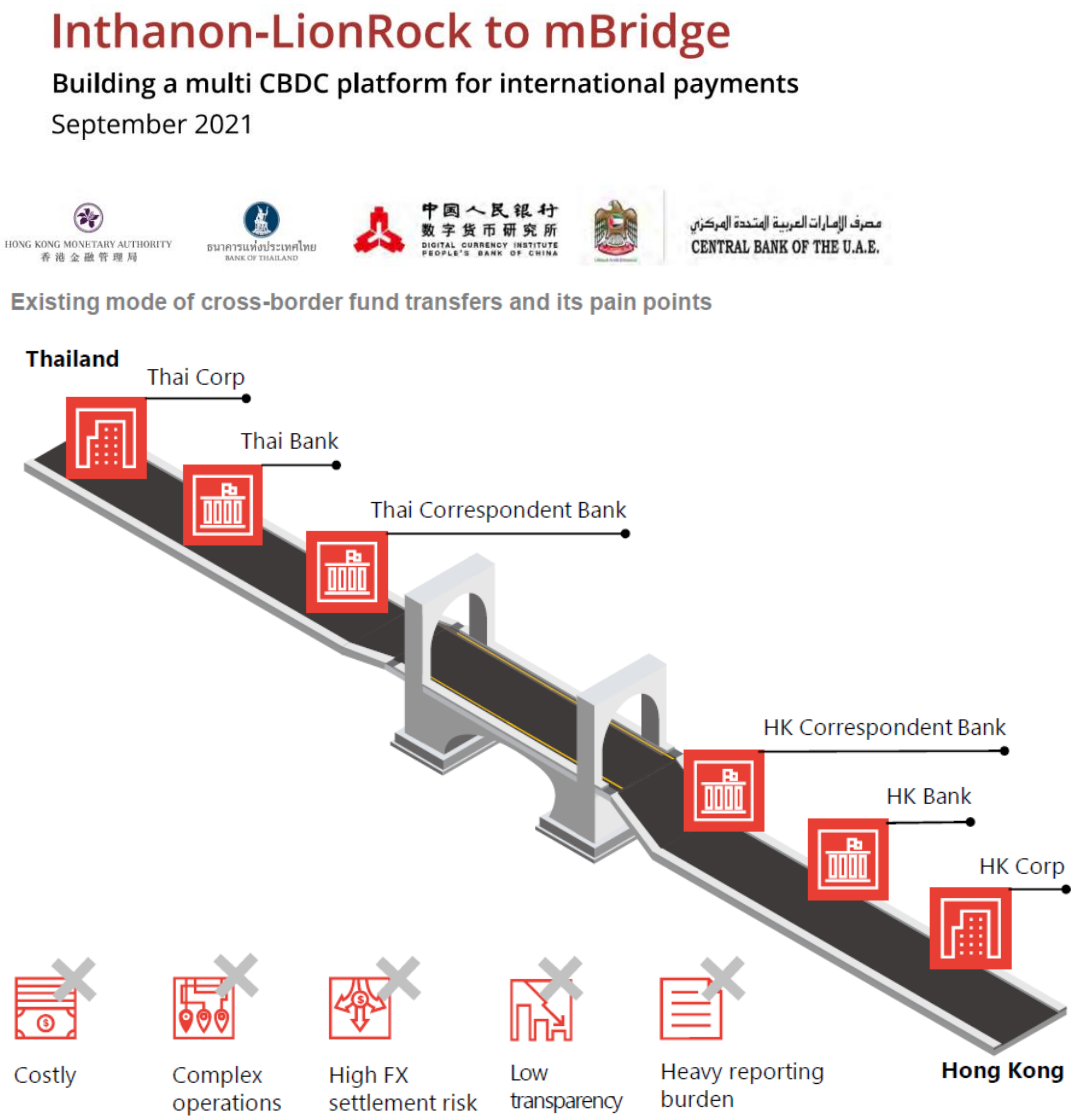
geographical areas.

To read more:
https://www.esma.europa.eu/sites/default/files/library/newsletter_september_2021.pdf



Inthanon-LionRock to mBridge: Building a multi CBDC platform for international payments

Joint report by the BIS Innovation Hub Hong Kong Centre, the Hong Kong Monetary Authority, the Bank of Thailand, the Digital Currency Institute of the People's Bank of China, the Central Bank of the United Arab Emirates.



In the absence of multilateral solutions for cross-border payments, correspondent banks currently act as bridges, moving payments from one jurisdiction to another.

To achieve this, they have built extensive correspondent banking networks and arrangements.

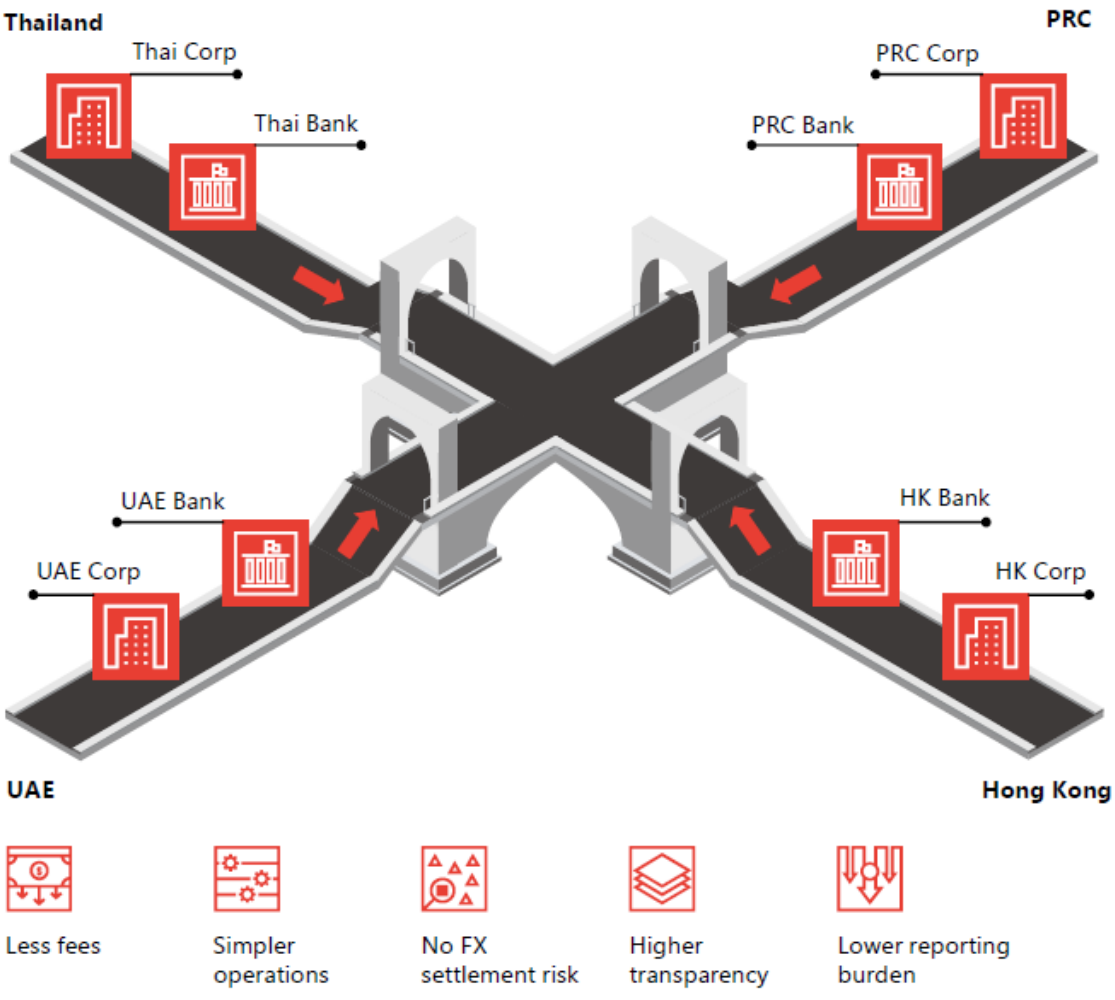
While serving a critical economic role, these networks and arrangements also introduce more intermediary steps in the system, as correspondent banks are spread out across multiple time zones and different operating hours.

This leads to increased operational complexity, possible bottlenecks and duplication. For example, know-your-customer (KYC) processes are repeated by every bank in the correspondent banking process flow.

As illustrated in the published report of Inthanon-LionRock Phase 1 this in turn leads to higher cost and slower speed of cross-border payments.

This process complexity also is paired with high FX settlement risk, low transparency and a high reporting burden.

Inthanon-LionRock and mBridge Model

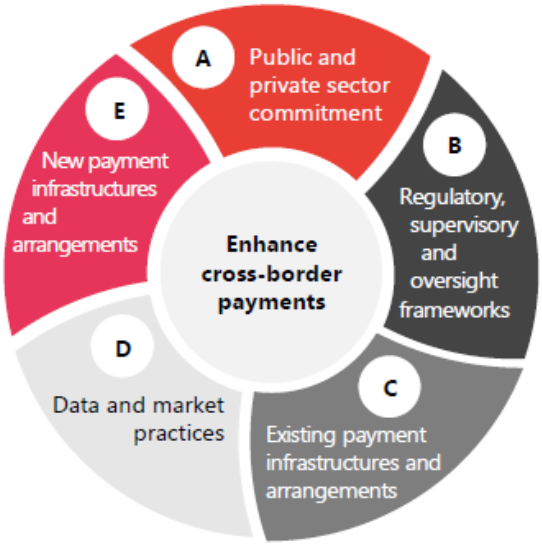


Source: Adapted from Inthanon-LionRock Leveraging Distributed Ledger Technology to Increase Efficiency in Cross-Border Payments, January 2020

Roadmap to enhancing cross-border payments

1. Develop common cross-border payments vision and targets
2. Implement international guidance and principles
3. Define common features of cross-border payment service levels

A



4. Align regulatory, supervisory and oversight frameworks
5. Apply AML/CFT consistently and comprehensively
6. Review interaction between data frameworks and cross-border payments
7. Promote safe payment corridors
8. Foster KYC and identity information-sharing

B

C

9. Facilitate increased adoption of PvP
10. Improve (direct) access to payment systems
11. Explore reciprocal liquidity arrangements
12. Extend and align operating hours
13. Pursue interlinking of payment systems

D

14. Adopt a harmonised version of ISO 20022 for message formats
15. Harmonise API protocols for data exchange
16. Establish unique identifiers with proxy registries

E

17. Consider the feasibility of new multilateral platforms and arrangements for cross-border payments
18. Foster the soundness of global stablecoins arrangements
19. Factor an international dimension into CBDC designs

Source: Enhancing cross-border payments: building blocks of a global roadmap Stage 2 report to the G20, July 2020[18]

To read more: https://www.bis.org/publ/othp40.htm

Moving forward in securing Online Trust via the Digital Wallets

The 2021 Trust Service Forum allows stakeholder communities to engage in open discussions on securing trust services online and on the future of the EU Digital Identity Framework.

Electronic signatures, electronic seals and other online trust services have become a staple in the life of many Europeans.

In light of the COVID-19 pandemic, a key aspect to ensure a viable business model for qualified trust service providers was an increasing usage of online trusted services among European citizens, businesses and public administrations in an online mode.

This new reality across the EU has highlighted the security concerns of remote identification and authentication processes.

The necessity for a new framework for EU digital identity became apparent.

The European Commission presented last June a new framework for the EU digital identity by offering to citizens and businesses the digital wallets that will allow EU citizens to retain their documents such as national digital identities, licences, diplomas and bank credentials securely in their smartphone.

The wallet should also allow them to log in to online services across the EU and to electronically sign their documents.

On September 21st, the European Union Agency for Cybersecurity (ENISA) in collaboration with the European Commission delivered the 7th consecutive ‘”Trust Service Forum”.

It attracted over to 1000 participants and brought more than forty experts, service providers, conformity assessment, supervisory bodies and national authorities together, to discuss the online trust market and its emerging issues under the European Commission’s Regulation 910/2014, on electronic identification and trusted services for electronic transactions in the internal market (eIDAS Regulation).

On 22nd September, D-TRUST in cooperation with TÜViT and the European School of Management and Technology (ESMT), held the 13th CA-Day.

Both conferences were held in a hybrid format, with physical presence for the panellists at the ESMT premises in Berlin and virtually for the participants.

The forum was jointly opened by the European Commission's Director of Digital Society, Trust and Cybersecurity Ms. Lorena Boix Alonso and ENISA's Head of Policy Development and Implementation Unit Mr. Evangelos Ouzounis and it was consisted of three main distinct blocks.

In the first one, the panellists discussed the new ''EU Digital Identity Framework- bringing opportunity to wider use of online trust solutions across the EU".

The concept of decentralised online identity, that gives back control to users over their personal data and leverages the use of an identity wallet, was additionally discussed.

Second block focused on certification and standardisation efforts and the third one on the trust service market – current state of play, opportunities and outlook.

Panellists had also the opportunity to further elaborate on the upcoming revisions of the eIDAS Regulation that proposes to further extend its application to the private sector and to promote trusted digital identities across the EU.

Background

The Trust Services Forum acts as a platform for participants to share their good practices on the implementation of trust services; review the standards, implementing acts and technical guidelines within the eIDAS; and discuss strategies to promote the adoption of qualified trust services.

The EU Agency for Cybersecurity supports the Commission on the implementation of the eIDAS by providing security recommendations for the implementation of trust services, mapping technical and regulatory requirements, promoting the deployment of qualified trust services in Europe and raising awareness among users on securing their e-transactions.

Under the EU Cybersecurity Act of 2019, the Agency gained an extended mandate to explore the area of electronic identification (eIDs) included in the regulation.

EU's Digital Wallet's proposal

The Commission on the 3rd June 2021 proposed a framework for a European Digital Identity which will be available to all EU citizens, residents, and businesses in the EU. Citizens will be able to prove their identity and share electronic documents from their European Digital Identity wallets with the click of a button on their phone.

They will be able to access online services with their national digital identification, which will be recognised throughout Europe. Large platforms are proposed to accept the use of European Digital Identity wallets upon request of the user, for example to prove their age. Use of the European Digital Identity wallet will always be at the choice of the user.

The new European Digital Identity Wallets will enable all Europeans to access services online without having to use private identification methods or unnecessarily sharing personal data. With this solution they will have full control of the data they share.

ESRB risk dashboard

The ESRB risk dashboard is a set of quantitative and qualitative indicators of systemic risk in the EU financial system.

The composition and presentation of the ESRB risk dashboard were reviewed in the fourth quarter of 2019.

Unless otherwise indicated, all EU indicators relate to the 27 Member States of the EU (the EU 27), excluding the United Kingdom.

In addition, all data series cover the 19 countries in the euro area for the whole time series.

For statistics based on the balance sheet of the monetary financial institution (MFI) sector, as well as statistics on financial markets and interest rates, the series relate to the composition of the EU/euro area in the period covered (changing composition).

Statistics based on the balance sheet of the MFI sector are unconsolidated.

Additional indicators to support the assessment of systemic risk in the EU financial system are available in the Macroprudential Database: http://sdw/browse.do?node=9689335

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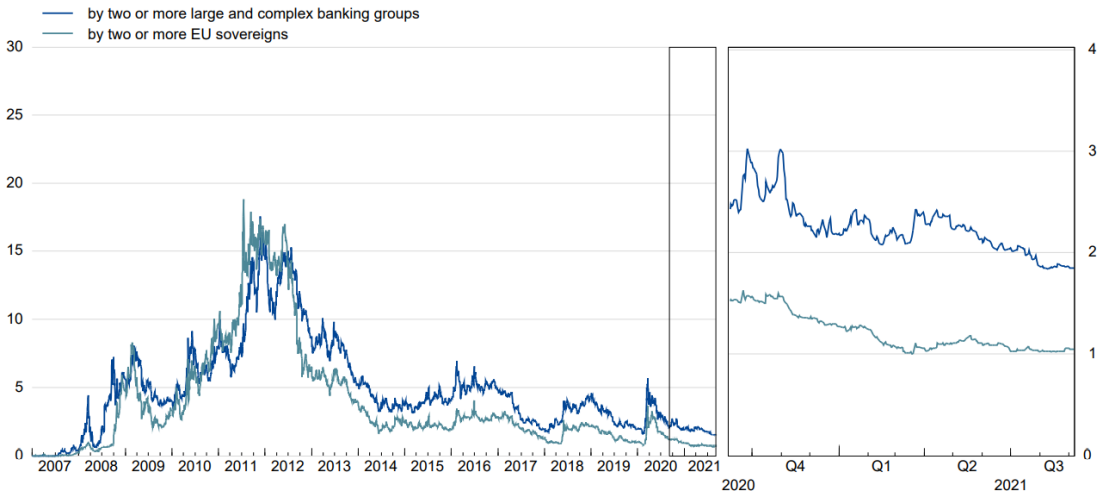
To read more:
https://www.esrb.europa.eu/pub/pdf/dashboard/esrb.risk_dashboard210924~addd11ae6f.en.pdf

1.2 Probability of a simultaneous default

(Percentages; last observation: 6 Sep. 2021)

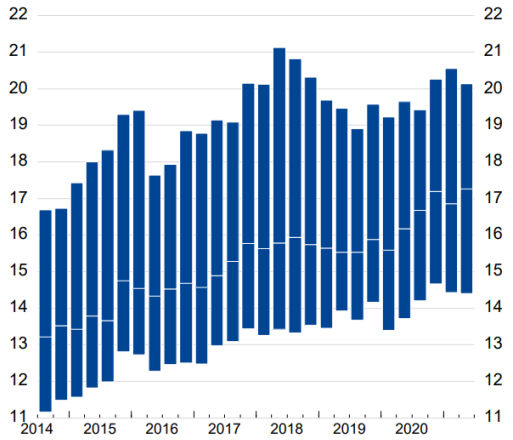


Sources: Bloomberg, Thomson Reuters and ECB calculations.

Note: See Box 8, Financial Stability Review, ECB, June 2012.

a. CET1 to risk weighted assets ratio

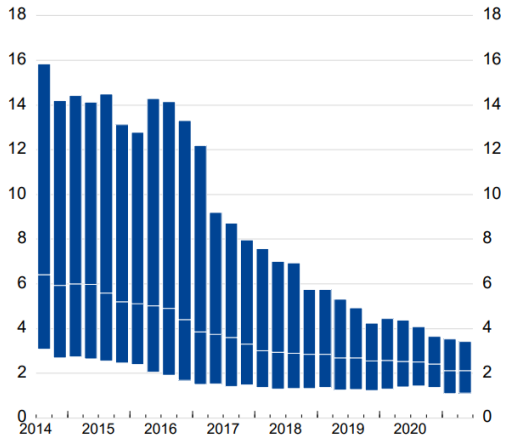
(EU; percentages; interquartile range and median; last observation: Q2 2021)



Source: EBA.

b. Non-performing loans to total gross loans and advances

(EU; percentages; interquartile range and median; last observation: Q2 2021)



Source: EBA.

Selecting and Hardening Remote Access VPN Solutions

National Security Agency | Cybersecurity and Infrastructure Security Agency | Cybersecurity Information Sheet

Virtual Private Networks (VPNs) allow users to remotely connect to a corporate network via a secure tunnel.

Through this tunnel, users can take advantage of the internal services and protections normally offered to on-site users, such as email/collaboration tools, sensitive document repositories, and perimeter firewalls and gateways.

Because remote access VPN servers are entry points into protected networks, they are targets for adversaries.

This joint NSA-CISA information sheet provides guidance on:

- Selecting standards-based VPNs from reputable vendors that have a proven track record of quickly remediating known vulnerabilities and following best practices for using strong authentication credentials.
- Hardening the VPN against compromise by reducing the VPN server's attack surface through:

Configuring strong cryptography and authentication

Running only strictly necessary features

Protecting and monitoring access to and from the VPN

Active Exploitation

Multiple nation-state Advanced Persistent Threat (APT) actors have exploited public Common Vulnerabilities and Exposures (CVEs) to compromise vulnerable VPN devices.

In some cases, exploit code is freely available online. Exploitation of these public CVEs can enable a malicious actor to perform:

- Credential harvesting

- Remote code execution of arbitrary code on the VPN device
- Cryptographic weakening of encrypted traffic sessions
- Hijacking of encrypted traffic sessions
- Arbitrary reads of sensitive data (e.g., configurations, credentials, keys) from the device

These effects usually lead to further malicious access through the VPN, resulting in large-scale compromise of the corporate network or identity infrastructure and sometimes of separate services as well.

To read more: https://media.defense.gov/2021/Sep/28/2002863184/-1/-1/0/CSI_SELECTING-HARDENING-REMOTE-ACCESS-VPNS-20210928.PDF

Central bank digital currencies: Executive summary

BIS

Central bank digital currencies:
executive summary

September 2021

Bank of Canada
European Central Bank
Bank of Japan
Sveriges Riksbank
Swiss National Bank
Bank of England
Board of Governors Federal Reserve System
Bank for International Settlements

Motivation

The centrality of central bank money in a monetary system anchors public trust in money and supports public welfare. As history has demonstrated, the evolution of money and payments delivers new opportunities and business models, alongside new challenges.

Our economies are becoming increasingly digital, user needs are rapidly evolving, and innovation is reshaping financial services. Many of our jurisdictions are seeing falling transactional use of cash, and new forms of digital money issued by the non-bank private sector (such as stablecoins) are emerging.

These developments have accelerated since the onset of the Covid-19 pandemic. Today, central banks are exploring how they can continue to deliver their public policy objectives, ensuring they are able to respond to a future system that appears to be changing rapidly.

A CBDC robustly meeting the foundational principles envisaged by this group could be an important instrument for central banks in such a future to enhance financial stability, harness new technologies and continue serving the public.

As money and payments develop rapidly, central banks' plans for CBDC will evolve. CBDC issuance and design are sovereign decisions. Whether or not to issue a CBDC, and its design features, are sovereign decisions for relevant authorities based on their assessments and a jurisdiction's circumstances.

To date, none of our jurisdictions has yet decided to proceed with a general purpose CBDC, which is one option within a wider set of open possibilities for central banks.

International cooperation on CBDC could provide an avenue for improving cross-border payments. This group's work has been focused on domestic explorations of CBDC.

Yet beyond this group there are valuable insights being generated in other fora which will contribute to our collective understanding and respective evaluation of CBDCs.

The ongoing work under building block 19 of the G20 roadmap to enhance cross-border payments has highlighted the potential for CBDCs to enhance the efficiency of cross-border payments for countries working together.

Facilitating international payments with CBDCs may be achieved through systems with different degrees of interoperability or cooperation.

As more central banks begin to consider issuance of CBDC, the practicalities of implementing such arrangements will be important areas for research, as will their macro-financial implications, where the IMF would have an important role to play.

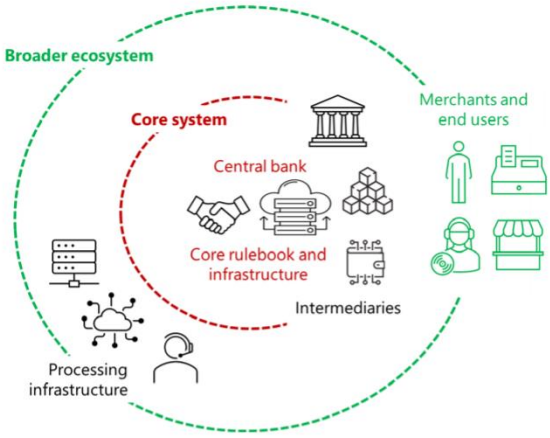
Finally, CBDCs would be likely to have wide-ranging impacts on public policy issues beyond a central bank's traditional remit.

Broad engagement and cooperation will play a key role in central banks' future CBDC deliberations.

Continuing our collaborations, we are publishing three reports, whose key messages are summarised below:

1. System design and interoperability; You may visit:
https://www.bis.org/publ/othp42_system_design.pdf

Illustrated elements, functions and roles in a CBDC ecosystem Graph 1



2. User needs and adoption; You may visit: https://www.bis.org/publ/othp42_user_needs.pdf

Central bank digital currencies: user needs and adoption

September 2021

Report no 3 in a series of collaborations from a group of central banks

Bank of Canada
European Central Bank
Bank of Japan
Sveriges Riksbank
Swiss National Bank
Bank of England
Board of Governors Federal Reserve System
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3. Financial stability implications. You may visit: https://www.bis.org/publ/othp42_fin_stab.pdf

Central bank digital currencies: financial stability implications

September 2021

Report no 4 in a series of collaborations from a group of central banks

Bank of Canada
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To read more: https://www.bis.org/publ/othp42.pdf

ESMA to focus on supervision, sustainability, digitalisation and the Capital Markets Union in 2022

The European Securities and Markets Authority (ESMA), the EU's securities markets regulator, has published its 2022 Annual Work Programme (AWP), setting out its priority work areas for the next 12 months to deliver on its mission to enhance investor protection and promote stable and orderly financial markets.

The 2022 AWP has been developed at a time of significant change for ESMA with its new powers and responsibilities, growth in staff numbers and senior management changes.

The key areas of focus for 2022 include: the exercise of new, and existing, supervisory powers for benchmarks and data service providers (DRSPs) as well as central counterparties (CCPs); its contribution to the European Union (EU) priorities on the development of the Capital Markets Union (CMU), sustainable finance and innovation; and the convergence of supervisory and regulatory practices across the EU.

In addition, it will continue to monitor the impact of the United Kingdom's withdrawal from the EU on the evolution of EU and global capital markets.

Natasha Cazenave, Executive Director, said:

"ESMA faces another year of change and challenge in 2022, with new supervisory powers for benchmarks and data service providers, significant contributions expected to support the EU's priorities through single rulebook and supervisory convergence work and further enhancements to our role as an EU capital markets data hub.

"This is an ambitious work schedule that aims to respond to the challenges faced by the EU, its capital markets, and its citizens. This includes developing the retail investor base to support the Capital Markets Union, promoting sustainable finance and long-term oriented markets, and dealing with the opportunities and risks posed by digitalisation and innovation in the financial sector."

2.4.1 Risk Monitoring and Analysis

Key objectives	Identify and assess financial market risks, report on these risks to the relevant institutions, and inform the public. Provide data, statistical and analytical basis for ESMA and NCA supervision, regulation, and convergence activities. Cooperate with EU and international bodies, including the ESRB, IOSCO and the FSB, to identify and assess financial stability and systemic risks. Identify opportunities and risks related to financial innovation, with particular attention to crypto asset market developments and risks. Systematically monitor trends and risks related to retail investor and ESG developments.

To read more:
https://www.esma.europa.eu/sites/default/files/library/esma20-95-1430_2022_annual_work_programme.pdf

Regulation, Supervision and Oversight of "Global Stablecoin" Arrangements

Progress Report on the implementation of the FSB High-Level Recommendations

FSB FINANCIAL STABILITY BOARD

Executive summary

This report provides a status update on progress made on the implementation of the FSB high-level recommendations for Regulation, Supervision and Oversight of "Global Stablecoin" Arrangements.

It discusses key market and regulatory developments since the publication of the FSB high-level recommendations in October 2020; takes stock of the implementation of the FSB high-level recommendations across jurisdictions; describes the status of the review of the existing standard-setting body (SSB) frameworks, standards, guidelines and principles in light of the FSB high-level recommendations; and identifies areas for consideration of potential further international work.

While the current generation so-called stablecoins are not being used for mainstream payments on a significant scale, vulnerabilities in this space have continued to grow over the course of 2020-21.

At present, stablecoins are being used primarily as bridge between traditional fiat currencies and other crypto-assets, which in turn are primarily held and traded for speculative purposes.

Increased participation by retail investors could give rise to broader financial stability issues through an erosion of trust in the financial system.

In the event that a stablecoin does enter the mainstream of the financial system as a means of payment and/or a store of value in multiple jurisdictions, with the potential to achieve substantial volume, it could become a global stablecoin (GSC).

The emergence of GSCs would pose greater risks to financial stability than existing stablecoins and may challenge the comprehensiveness and effectiveness of existing regulatory, supervisory and oversight approaches.

Ensuring appropriate regulation, supervision and oversight across sectors and jurisdictions will therefore be necessary to prevent any potential gaps and avoid regulatory arbitrage.

Overall, the implementation of the FSB high-level recommendations across jurisdictions is still at an early stage.

In the first half of 2021, the FSB conducted a comprehensive stock-take of the implementation of the FSB high-level recommendations on the regulation, supervision, and oversight of so-called “global stablecoin” arrangements of October 2020.

48 jurisdictions in the FSB and its Regional Consultative Groups (RCGs) participated in the stock-take covering 21 advanced economies and 27 emerging markets and developing economies.

Several jurisdictions have been reviewing and updating their legal and regulatory regimes to address specific risks arising from the emergence of stablecoins.

Jurisdictions have taken or are considering different approaches towards implementing the high-level recommendations.

As the stablecoin landscape is evolving rapidly and as regulatory and supervisory policies are being developed, the differences among regulatory approaches and classifications could be increasing.

For example, certain jurisdictions are seeking to implement the recommendations through the adoption of new rules and regulations, while others have amended or plan to amend existing rules and regulations in such a way that these are applicable to stablecoins.

Other jurisdictions have relied largely on existing regulatory, supervisory and oversight regimes to address the risks associated with stablecoins or with entities that are part of the stablecoin arrangement.

Differing regulatory classifications and approaches to stablecoins at jurisdictional level could give rise to the risk of regulatory arbitrage and harmful market fragmentation.

Standard-setting bodies are continuing to assess whether and how existing international standards may apply to stablecoin arrangements and, where appropriate, adjust their standards in light of the FSB high-level recommendations.

However, a number of issues may not be fully covered by ongoing work.

Authorities should rely on existing standards and principles relevant to the supervision and oversight of GSC arrangements, where they perform the same economic function as existing regulated activities covered by these standards. Any gaps in existing standards and principles should be addressed holistically and in a manner that is coordinated across sectors.

The FSB high-level recommendations complement the international standards and principles and should inform any potential updates to international sectoral standards and principles.

As jurisdictions are using the FSB high-level recommendations in developing their own domestic regulatory approaches, authorities have identified several issues relating to the implementation of the recommendations that may warrant further consideration and where further work at international level could be useful.

Areas for further consideration that respondents to the stock-take identified as most useful include conditions for qualifying a stablecoin as a GSC; prudential, investor protection, and other requirements for issuers, custodians, and providers of other GSC functions (e.g., wallet providers); redemption rights; cross-border and cross-sectoral cooperation and coordination; and mutual recognition and deference.

Further work on these issues at international level may help to support the effective implementation of the FSB high-level recommendations at the jurisdictional level, to mitigate the risk of regulatory fragmentation and arbitrage, and to address risks to financial stability arising from GSCs.

Efforts by standard-setting bodies to review, and where appropriate adjust their standards can further promote international consistency and reduce the risk of arbitrage or regulatory underlaps. The work on fostering the soundness of GSCs is an integral part of the Roadmap for enhancing cross-border payments endorsed by the G20 in October 2020.

The Roadmap, which the FSB has developed in coordination with relevant international organisations and SSBs, calls for a review by the FSB, to be undertaken in consultation with other relevant SSBs and international organisations, of the FSB high-level recommendations.

This progress report and the underlying stock-takes, as well as ongoing and planned work from SSBs, will inform that review.

The FSB will continue to support the effective implementation of the FSB high-level recommendations and facilitate coordination among SSBs. Starting in January 2022, with an expected completion date of July 2023, the FSB will review, in consultation with other relevant SSBs and international organisations, the recommendations in the FSB report and how any gaps identified could be addressed by existing frameworks.

The FSB will update its recommendations, if needed.

To read more: https://www.fsb.org/wp-content/uploads/P071021.pdf

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