European Leveraged Finance Association

BRIEFINGS

LEGAL & REGULATORY

30 November 2020

Legal and Regulatory Updates

23/11/2020 – 27/11/2020

Key Highlights

- This Legal & Regulatory Update covers the week commencing **23/11/2020**.
- FCA delivers speech on building trust in sustainable investments.
- FRC publishes results of its review of corporate governance reporting.
- ESMA sets out its final view on the derivatives trading obligation (DTO).
- EIOPA consults on application of supervisory ladder.
- EBA calls on European Commission to harmonise significant risk transfer assessment in securitisation.
- ESAs propose to adapt EMIR implementation timelines for intragroup transactions, equity options and novations to EU counterparties.
- Working group on euro risk-free rates launches two public consultations on fallbacks to EURIBOR.
- ECB publishes its November 2020 Financial Stability Review.
- ECB publishes final guide on climate-related and environmental risks for banks.
- European Commission announces successful third issuance of EU SURE bonds.
- European Commission gives speech on review of Alternative Investment Fund Managers Directive.
- CBI welcomes EU Commission announcement of temporary UK equivalence decision for Central Securities Depository Regulation.
- CBI publishes second Financial Stability Review of 2020.
- AMF finds effectiveness of internal control of outsourcing processes of asset management companies to be too disparate.
- CSSF publishes information on global situation of undertakings for collective investment at end of October 2020.
- CSSF publishes updated Version of its FAQ document on Law of 17 December 2010 relating to undertakings for collective investment.
- Basel Committee amends capital requirements for non-performing loan securitisations.
- FSB examines financial stability implications of climate change.
- IOSCO Annual Meeting addresses impact of COVID 19 and other critical matters on securities markets.
- IIRC and SASB announce intent to merge in major step towards simplifying corporate reporting system.
- Central Bank of Sweden (Riskbank) publishes statement on zero policy rate and extended asset purchases.
- In this update, we also cover some of the most important news on leveraged finance published by the Financial Times and Thomson Reuters during the week.

Bank of England (BoE)

23 – 27 November 2020: Speeches, Letters & Publications

During the week, the Bank of England (BoE) released the following speeches & other publications that might be of interest to our readers:

- Green Notice 2020/02 on future changes to the submission of statistical data to the Data and Statistics Division (DSD) – DSD is planning to move the collection of statistical data to the Bank of England Electronic Data Submission (BEEDS) portal. BEEDS is an online application that enables firms to complete and submit data submissions online. Firms can also view the information held about them by the BoE and keep it up to date
- PS23/20: Calculation of risks not in value at risk, and stressed value at risk – this Policy Statement (PS) provides feedback to responses to Consultation Paper (CP) 15/20 'Market risk: Calculation of risks not in value at risk, and stressed value at risk'. It also contains final policy, in the form of the updated Supervisory Statement (SS) 13/13 'Market Risk'
- Bank of England Weekly Report 25 November 2020
- Capital Issuance October 2020
- Minutes of the Working Group on Sterling Risk-Free Reference Rates September 2020
- Informed trading and the dynamics of client-dealer connections in corporate bond markets – Staff Working Paper No. 895

- Liquidity management, fire sale and liquidity crises in banking: the role of leverage – Staff Working Paper No. 894
- Does regulatory and supervisory independence affect financial stability? – Staff Working Paper No. 893
- Separating retail and investment banking: evidence from the UK – Staff Working Paper No. 892
- What has central bank independence ever done for us? – Speech by Andy Haldane
- How has Covid affected household savings? – Bank Overground
- Buy-to-let mortgages: how do lenders account for tax when assessing affordability? – Bank Overground
- Cash in the time of Covid – Quarterly Bulletin 2020 Q4

Financial Conduct Authority (FCA)

23 November 2020: FCA delivers speech on building trust in sustainable investments

Richard Monds, Director of Strategy at the Financial Conduct Authority (FCA), delivered a speech on building trust in sustainable investments stating that the FCA is considering whether it would be helpful to articulate a set of guiding principles to help firms with ESG product design and disclosure.

Key points from the speech are:

- sustainability factors are increasingly influencing consumer decision-making. Consumers should be able to trust the products they are offered and rely on them to perform as they expect;
- the FCA is undertaking a number of initiatives that will help to address the concerns it has identified, including domestic and international work on issuers' disclosures and ongoing work with Government on implementation of EU regulations; and
- the FCA has started to think about some principles that could help to guide the assessment of applications to authorise sustainable investment products.

23 – 27 November 2020: Speeches, Letters & Other Publications

During the week, the FCA released the following publications & and announcements that might be of interest to our readers:

- The business of social purpose – Speech by Jonathan Davidson
- FCA explains benefits of new data collection platform RegData – RegData will replace Gabriel as the FCA's data collection platform. RegData is informed by user feedback, is faster, easier to use and built with flexible technology, making it possible to fix issues quicker and to make ongoing improvements to user experience
- FCA fines TFS-ICAP £3.44 million for market misconduct – for communicating misleading information to clients

Financial Reporting Council (FRC)

26 November 2020: FRC publishes results of its review of corporate governance reporting

The Financial Reporting Council (FRC) published the results of its review of corporate governance reporting. Although the revised UK Corporate Governance Code provides an opportunity for companies to report to their stakeholders in a way that allows them to communicate high-quality information about the way in which their governance functions to deliver a company's purpose and strategy, the review provides that this was not consistent across the board. The review explains that some companies continue to treat the Code as a box-ticking exercise. Where this happens, reporting is formulaic and companies do not seize the opportunity to meaningfully explain why they do not comply with its provisions. As a result, the FRC's review finds that corporate governance reporting failed to live up to stakeholder expectations.

The review has allowed the FRC to set out expectations for improvement in the following areas:

- companies should provide clear and meaningful explanations of how they achieve good governance standards in line with the flexibility offered by the Code;
- clearly showing the impact of engagement with stakeholders, including shareholders, on decision-making, strategy and long-term success;
- better assessment and monitoring of culture, including consideration of methods and metrics used; and
- demonstrating commitment to diversity and inclusion through actions, such as improved succession planning and recruitment from diverse talent pools.

23 – 27 November 2020: Speeches, Letters & Other Publications

During the week, the FRC released the following publications & and announcements that might be of interest to our readers:

- End of the transition period letters and business readiness webinar – the government and the FRC published letters to the accounting and audit sectors setting out the UK framework for audit and reporting at the end of the transition period. As the end of the EU exit transition period approaches, the Department for Business, Energy & Industrial Strategy (BEIS) and the FRC will also be hosting a joint webinar on the latest developments and implications for stakeholders
- FRC consults on revised review standard (ISRE (UK) 2410) for interim financial statements – the FRC's specific objective in performing this limited revision to ISRE (UK) 2410 is to address a potential lack of clarity in relation to going concern when performing a review of interim financial information
- FRC publishes the results of its review of completed audits and concludes that audit firms have implemented additional measures to enhance their evaluation of companies' going concern assessments, since the start of the Covid-19 pandemic – the FRC reviewed a sample of eleven audits of the going concern assessments performed by the seven largest UK audit firms. The review found that the additional policies and procedures introduced earlier in the year had been substantially applied in practice. The auditors demonstrated an appropriate level of challenge to company boards and management about their key assumptions, stress testing and disclosures in the financial statements
- FRC issues a statement in response to the Asset Management Taskforce report – the FRC commends all the organisations that worked together to develop the recommendations of the Asset Management Taskforce's Investing with Purpose report. The FRC welcomes the report's endorsement of the UK Stewardship Code as the best in class marker of effective stewardship and the recommendations that encourage investors and those that support them to apply and report against the Code

- Call for Participants in new Lab project: reporting on risks, uncertainties and scenarios – the Lab is inviting investors and companies to participate in a new project on corporate disclosures on risks, uncertainties and scenarios
- In conversation with Hannah Armitage and Julia Morris on why climate change is relevant to the audit process and companies' accounts, and what the FRC's review found audit firms and auditors were doing to respond – Podcast

European Securities and Markets Authority (ESMA)

25 November 2020: ESMA sets out its final view on derivatives trading obligation (DTO)

The European Securities and Markets Authority (ESMA) released a public statement clarifying the application of the European Union's (EU) trading obligation for derivatives (DTO) following the end of the UK's transition from the EU on 31 December 2020. The statement clarifies that the DTO will continue applying without changes after the end of the transition period. ESMA considers that the continued application of the DTO would not create risks to the stability of the financial system.

ESMA, in its statement, acknowledged that this approach creates challenges for some EU counterparties particularly UK branches of EU investment firms. However, ESMA considers that EU counterparties can meet their obligations under the DTO by trading on EU trading venues or eligible trading venues in third countries, and this situation is primarily a consequence of the way the UK has chosen to implement the DTO. Based on the current legal framework, and in the absence of an equivalence decision by the European Commission, ESMA explained that it does not see room for providing different guidance. ESMA will continue to closely monitor the situation to assess whether markets would be sufficiently liquid for the purpose of the DTO after the end of the transition period.

23 – 27 November 2020: Speeches, Letters & Other Publications

During the week, ESMA released the following speeches, letters and publications that might be of interest to our readers:

- ESMA publishes Newsletter N°18 – since the last newsletter, key publications have been ESMA's report on Wirecard, the Share Trading Obligation (STO) and the Derivatives Trading Obligation (DTO) statements and the first statistical report on EU securities markets. More throughout the month, ESMA released its 2021 Work Programme and launched an important consultation on Taxonomy Regulation
- ESMA publishes translations for Guidelines on enforcement of financial information
- ESMA withdraws the credit rating agency (CRA) registration of INC Rating Sp. z o.o
- ESMA publishes shortlist of candidates for position of Chair

European Insurance and Occupational Pensions Authority (EIOPA)

25 November 2020: EIOPA consults on application of supervisory ladder

The European Insurance and Occupational Pensions Authority (EIOPA) published a consultation on the statement on supervisory practices and expectations in case of breach of the Solvency Capital Requirement (SCR). EIOPA is gathering feedback on this statement which aims to promote supervisory convergence in the application of the supervisory ladder, in particular addressing the recovery plan required in case of breach of the SCR. The deadline for submission of feedback is Wednesday 17 February 2021. EIOPA will consider the feedback received, develop impact assessment and publish a final report on the consultation as well as submit the supervisory statement for adoption by its Board of Supervisors.

European Banking Authority (EBA)

23 November 2020: EBA calls on European Commission to harmonise significant risk transfer assessment in securitisation

The European Banking Authority (EBA) published a report on significant risk transfer (SRT) in securitisation transactions, which includes a set of detailed recommendations to the European Commission on the harmonisation of practices and processes applicable to the SRT assessment. The EBA proposals aim to enhance the efficiency, consistency and predictability of the supervisory SRT assessment within the current securitisation framework.

The SRT Report makes recommendations in three key areas where greater harmonisation of supervisory practices would enhance the efficiency and improve convergence outcomes of the supervisory SRT assessments:

- assessment of structural features of securitisation transactions;
- application of the SRT quantitative tests; and
- supervisory process for assessing SRT in individual transactions.

In addition, the EBA has identified shortcomings in certain CRR provisions currently in force that are significantly detrimental to the effectiveness of the supervisory assessment of SRT. Accordingly, the report sets out several recommendations on desirable amendments to the CRR that could correct those shortcomings and improve the SRT framework.

European Supervisory Authorities (ESAs)

23 November 2020: ESAs propose to adapt EMIR implementation timelines for intragroup transactions, equity options and novations to EU counterparties

The European Supervisory Authorities (ESAs), which consist of the ESBA, ESMA and EIOPA, published a final report with draft regulatory technical standards (RTS) proposing to amend the Commission Delegated Regulation on the risk mitigation techniques for OTC derivatives not cleared by a CCP (bilateral margin requirements) under the European Market Infrastructure Regulation (EMIR). ESMA also published a final report with new draft RTS proposing to amend the three Commission Delegated Regulations on the clearing obligation under EMIR.

European Central Bank (ECB)

23 November 2020: Working group on euro risk-free rates launches two public consultations on fallbacks to EURIBOR

The Working group on euro risk-free rates, which the European Central Bank (ECB) provides the secretariat for, launched two public consultations on fallbacks to EURIBOR. In one consultation, stakeholders are invited to provide their views on fallback rates based on the euro short-term rate (€STR) and spread adjustment methodologies in order to produce the most suitable EURIBOR fallback measures per asset class. In the other consultation, stakeholders are invited to give their views on potential events that could trigger such fallback measures. For both consultations, stakeholders are invited to provide their views by 15 January 2021.

25 November 2020: ECB publishes its November 2020 Financial Stability Review

The ECB published its November 2020 Financial Stability Review (FSR). The FSR assesses the implications of the ongoing pandemic and the associated change in prospects for financial market functioning, debt sustainability, bank profitability and the non-bank financial sector. It also sets out policy considerations for both the near term and the medium term. It does so to promote awareness of systemic risks among policymakers, the financial industry and the public at large, with the ultimate goal of promoting financial stability. By providing a financial system-wide assessment of risks and vulnerabilities, the FSR also provides key input to the ECB's macroprudential policy stance.

27 November 2020: ECB publishes final guide on climate-related and environmental risks for banks

The ECB published its final and amended guide on climate-related and environmental risks following a public consultation. The guide explains how the ECB expects banks to prudently manage and transparently disclose such risks under current prudential rules. The ECB will now follow up with banks in two concrete steps. In early 2021 it will ask banks to conduct a self-assessment in light of the supervisory expectations outlined in the guide and to draw up action plans on that basis. The ECB will then benchmark the banks' self-assessments and plans, and challenge them in the supervisory dialogue. In 2022 it will conduct a full supervisory review of banks' practices and take concrete follow-up measures where needed. In line with the growing importance of climate change for the economy and increasing evidence of its financial impact on banks, the ECB will conduct its next supervisory stress test in 2022 on climate-related risks. Further details will be provided in the course of 2021. The guide will apply immediately.

Additionally, the ECB published a report on institutions' climate-related and environmental risk disclosures. The report finds that banks are lagging behind on their climate-related and environmental risk disclosures. While there has been some improvement since the previous year, the ECB provides that banks need to make significant efforts to better support their disclosure statements with relevant quantitative and qualitative information. In the second half of 2021 the ECB intends to identify remaining gaps and discuss them with the banks.

23 – 27 November 2020: Speeches, Letters & Other Publications

During the week, the ECB released the following speeches, letters and publications that might be of interest to our readers:

- ECB publishes results of its survey on the Access to Finance of Enterprises in the euro area April to September 2020
- Monetary policy in a pandemic: ensuring favourable financing conditions – Speech by Philip R. Lane
- Shifting tides in euro area money markets: from the global financial crisis to the COVID-19 pandemic – Speech by Isabel Schnabel
- COVID-19 and monetary policy: Reinforcing prevailing challenges – Speech by Isabel Schnabel
- From the payments revolution to the reinvention of money – Speech by Fabio Panetta
- Facing up to the challenges posed by COVID-19 and Brexit – Presentation by Edouard Fernandez-Bollo
- The performance and resilience of green finance instruments: ESG funds and green bonds – Financial Stability Review, November 2020
- Prospects for euro area bank lending margins in an extended low-for-longer interest rate environment – Financial Stability Review, November 2020
- Some way to go in the transition to the €STR – Financial Stability Review, November 2020
- Causes and implications of variation in euro area banks' recent loan loss provisioning – Financial Stability Review, November 2020
- Selecting adverse economic scenarios for the quantitative assessment of euro area banking system resilience – Financial Stability Review, November 2020
- Interconnectedness of derivatives markets and money market funds through insurance corporations and pension funds – Financial Stability Review, November 2020
- A macroprudential perspective on replenishing capital buffers – Financial Stability Review, November 2020
- Developments in the sovereign-bank nexus in the euro area: the role of direct sovereign exposures – Financial Stability Review, November 2020
- Financial stability considerations arising from the interaction of coronavirus-related policy measures – Financial Stability Review, November 2020
- Assessing corporate vulnerabilities in the euro area – Financial Stability Review, November 2020
- Understanding what happens when "angels fall" – Financial Stability Review, November 2020
- How does monetary policy affect investment in the euro area? – Research Bulletin No.77
- Do words hurt more than actions? The impact of trade tensions on financial markets – Working Paper Series
- Fire sales by euro area banks and funds: what is their asset price impact? – Working Paper Series
- Banks, low interest rates, and monetary policy transmission – Working Paper Series
- How news affects sectoral stock prices through earnings expectations and risk premia – Working Paper Series
- Nowcasting business cycle turning points with stock networks and machine learning – Working Paper Series
- Using forecast-augmented VAR evidence to dampen the forward guidance puzzle – Working Paper Series
- Interest rate risk and monetary policy normalisation in the euro area – Working Paper Series

European Commission (EC)

25 November 2020: European Commission announces successful third issuance of EU SURE bonds

The European Commission (EC) announced that it has issued a €8.5 billion social bond under the EU SURE instrument to help protect jobs and keep people in work. This has been the third bond issuance this year under the programme. It consisted of a single tranche due for repayment in July 2035. There was very strong investor interest in this highly rated instrument, and the bond was over 13 times oversubscribed. This was translated into favourable pricing terms which means that Member States will receive more in loans than they will have to repay.

23 – 27 November 2020: Speeches, Letters & Other Publications

During the week, the EC released the following speeches, letters and publications that might be of interest to our readers:

- European Commission gives speech on review of the Alternative Investment Fund Managers Directive – the EC held a virtual conference on the AIFMD review on 25 November during which Commissioner McGuinness gave an opening speech
- Mergers: Commission clears Altice, Allianz and Omers' joint acquisition of Covage, subject to conditions – approval is conditional on full compliance with a commitments package offered by the Altice, Allianz and Omers
- Commission adopts Action Plan on Intellectual Property to strengthen EU's economic resilience and recovery – the Action Plan builds on the strengths of the European IP framework to ensure that it supports our economic recovery and resilience in key economic areas
- Commission approves €120 million Luxembourg scheme to support uncovered fixed costs of companies affected by coronavirus outbreak

Central Bank of Ireland (CBI)

25 November 2020: CBI welcomes EU Commission announcement of temporary UK equivalence decision for Central Securities Depository Regulation

The Central Bank of Ireland (CBI) announced that it welcomes the announcement by the EU Commission of the temporary UK equivalence decision for the purposes of the Central Securities Depository Regulation (CSDR) until 30 June 2021. The CBI believes that this announcement is another important action aimed at ensuring the Irish capital markets do not face disruption at end December 2020 when the UK's transition period ends.

26 November 2020: CBI publishes second Financial Stability Review of 2020

The CBI published the second Financial Stability Review (FSR) of 2020, which sets out the CBI's views on the most material macro-financial risks facing the Irish economy, judgments on the resilience of various sectors and along with a number of macroprudential policy announcements. For the first time, this publication contains a forward-looking assessment of the resilience of the domestic retail banking system.

The FSR indicates that:

- policy supports have cushioned the initial liquidity shock to firms and households;
- the loss-absorbing capacity of the system as a whole is sufficient to absorb shocks that are materially worse than current baseline projections;
- that loss-absorbing capacity is not unlimited;
- macro-financial conditions would be worse if the banking system sharply reduced the supply of credit; and
- to guard against this risk, policymakers have responded with a range of fiscal, monetary, macroprudential and microprudential actions.

The Governor of the CBI said that the messages from the FSR are threefold that: the overall risk environment remains very challenging and continues to be characterised by heightened uncertainty; the banking system as a whole has loss-absorbing capacity for shocks that are materially worse than current baseline projections; and the macroprudential framework has helped ensure that the financial system is better able to absorb the shocks being faced currently.

23 – 27 November 2020: Speeches, Letters & Other Publications

During the week, the CBI released the following speeches, letters and publications that might be of interest to our readers:

- Financial Stability Review Opening Statement – Statement by Governor Makhlouf
- Remarks by Governor Gabriel Makhlouf on the publication of the Financial Stability Review 2020:2 – Speech
- Financial Stability Review – Blog

Autorité des Marchés Financiers (AMF) of France

26 November 2020: AMF finds effectiveness of internal control of outsourcing processes of asset management companies to be too disparate

As part of its SPOT thematic inspections, the Autorité des Marchés Financiers (AMF) examined how seven asset management companies (AMCs) outsourced internal control to three firms. The inspections were aimed at encouraging good practice in the selection and monitoring of service providers, and in the periodic review of the quality of their work.

The inspection examined the following:

- the internal control organisation of the AMCs (selection of the service provider, resources allocated, scope of outsourcing, governance, etc.);
- the procedures and methodology for conducting controls and the control plan;
- practical implementation of the control process;
- reporting to senior management and the AMF; and
- the system for evaluation and monitoring of the service provider by the AM.

Overall, this series of inspections revealed an excessively disparate level of effectiveness of the internal control systems that use the services of service providers. In some cases, these systems are insufficient, both in terms of the depth of the analysis and the traceability of the due diligence performed. All AMCs that wish to outsource their internal control must pay special attention to the choice and monitoring of the service provider. To improve practices, the AMF will therefore clarify its policy.

23 – 27 November 2020: Speeches, Letters & Other Publications

During the week, the AMF released the following speeches, letters and publications that might be of interest to our readers:

- The AMF publishes its annual report on corporate governance: 2020's general meetings and executive compensation – AMF provides details on the holding of general meetings in camera. It analysis the information published by listed companies about executive compensation with a focus on variable and exceptional compensation. For the first time this year, the AMF also presents comments on some proxy advisors' practices
- The AMF and ACPR remind service providers that the transitional period for conducting business on digital assets without registration ends on 18 December 2020 – the authorities are reminding service providers, who are engaged in the provision of digital asset custody services for third parties or the purchase and sale of digital assets in legal tender prior to the entry into force of the Pacte Law, that they have until 18 December 2020 to comply with the registration requirement

Commission de Surveillance du Secteur Financie (CSSF)

27 November 2020: CSSF publishes information on global situation of undertakings for collective investment at end of October 2020

The Commission de Surveillance du Secteur Financier (CSSF) published information on the global situation of undertakings for collective investment at end of October 2020. According to the CSSF, as at 31 October 2020, the total net assets of undertakings for collective investment, comprising UCIs subject to the 2010 Law, specialised investment funds and SICARs, amounted to EUR 4,674.665 billion compared to EUR 4,696.186 billion as at 30 September 2020, i.e. an decrease of 0.46% over one month. Over the last twelve months, the volume of net assets rose by 2.11%. The Luxembourg UCI industry thus registered a negative variation amounting to EUR 21.521 billion in October. This decrease represents the sum of positive net capital investments of EUR 3.375 billion (+0.07%) and of the negative development of financial markets amounting to EUR 24.896 billion (-0.53%).

23 – 27 November 2020: Speeches, Letters & Other Publications

During the week, the CSSF released the following circulars, speeches, letters and publications that might be of interest to our readers:

- CSSF publishes updated Version of its FAQ document on the Law of 17 December 2010 relating to undertakings for collective investment
- CSSF provides answer to FAQ on the definition of "other professional investors" that are excluded from the SIIL's coverage pursuant to point 7 of Article 195 (2) of the Law of 2015
- CSSF alerts market participants of the EBA's statement, on the 9th of November, reminding financial institutions of the need for readiness in view of the Brexit transition period ending on 31 December 2020
- CSSF informs market participants that IOSCO has recently published two reports relating to Money Market Funds

Basel Committee on Banking Supervision (BCBS)

26 November 2020: Basel Committee amends capital requirements for non-performing loan securitisations

The Basel Committee on Banking Supervision (BCBS) published the technical amendment "Capital treatment of securitisations of non-performing loans". The rule, which the Committee started developing before the onset of the Covid-19 pandemic, closes a gap in the Basel framework by setting out prudent and risk sensitive capital requirements for non-performing loan securitisations. The Committee consulted publicly on the technical amendment in June 2020. In contrast to the consultative proposal, the final rule permits banks to apply the external ratings-based approach to non-performing loans securitisation exposures, without the 100% risk weight floor. In addition, the final rule includes discounts on tranche sales in the definition of discount incurred by the originating bank that factors in the capital requirements. Committee jurisdictions agreed to implement the technical amendment by no later than January 2023.

Financial Stability Board (FSB)

23 November 2020: FSB examines financial stability implications of climate change

The Financial Stability Board (FSB) published a report that examines the potential implications of climate change for financial stability. The report analysis how climate-related risks might be transmitted across, and might be amplified by, the financial system, including across borders. It also sets out next steps for the FSB's work in this area. According to the report, climate-related risks – physical and transition risks – may also affect how the global financial system responds to shocks. They may give rise to abrupt increases in risk premia across a wide range of assets. This could alter asset price (co-)movement across sectors and jurisdictions; amplify credit, liquidity and counterparty risks; and challenge financial risk management in ways that are hard to predict. Such changes may weaken the effectiveness of some current approaches to risk diversification and management. This may in turn affect financial system resilience and lead to a self-reinforcing reduction in bank lending and insurance provision.

Additionally, the FSB explains that the breadth and magnitude of climate-related risks might make these effects more pernicious than in the case of other economic risks. Moreover, the interaction of climate-related risks with other macroeconomic vulnerabilities could increase risks to financial stability. For instance, certain emerging market and developing economies that are particularly vulnerable to climate change are also dependent on cross-border bank lending. Nonetheless, the FSB notes that there are various actions that financial institutions can take – and are taking – to reduce or manage their exposure to climate-related risks. However, the FSB explains that the efficacy of such actions taken by financial firms may be hampered by a lack of data with which to assess clients' exposures to climate-related risks, or the magnitude of climate-related effects. The FSB believes that robust risk management might be supported by initiatives to enhance information with which to assess climate-related risk. Therefore, the FSB indicated that it will conduct further work to assess the availability of data through which climate-related risks to financial stability could be monitored, as well as any data gaps.

International Organization of Securities Commissions (IOSCO)

23 November 2020: IOSCO Annual Meeting addresses impact of COVID 19 and other critical matters on securities markets

Members of the International Organization of Securities Commissions (IOSCO) gathered online for the organization's 45th Annual Meeting last week to discuss the impact of COVID 19 on capital markets and other priority issues facing securities market regulators and supervisors today. Some 480 members from 159 jurisdictions participated in the event. At its meeting, the IOSCO Board approved the following two additional priority themes for 2021:

- financial stability and systemic risks in NBFI; and
- remote working, misconduct risks, fraud and scams, and operational resilience, in the context of the COVID-19 pandemic.

On sustainable finance, the Board discussed the purpose of a consistent and comprehensive framework that builds on the current global initiatives on corporate disclosures by the alliance of international sustainable finance standard setters, together with IFRS Foundation proposals for a standard setting mechanism. The Board agreed that the IOSCO Sustainable Finance Task Force should further explore the following areas:

- pathways to mandatory disclosure beyond comply or explain requirements;
- engaging with the IFRS Foundation to ensure that any proposals stemming from the consultation paper meet securities regulators' expectations both in terms of content and governance; and
- advancing discussions regarding the establishment of an assurance framework for sustainability disclosures.

The Board also discussed the Sustainable Finance Task Force's other work on sustainability-related disclosures, green-washing and the increasing activity of ESG data providers and credit rating agencies regarding ESG ratings.

International Capital Market Association (ICMA)

25 November 2020: ICMA responds to ESMA Consultation Paper on MiFID II/ MiFIR review on the functioning of Organised Trading Facilities (OTF)

The International Capital Market Association (ICMA) announced that it has responded to ESMA's surprisingly wide scoped consultation on the functioning of the Organised Trading Facility regime. The response was based on the views of members ICMA's OTF taskforce representing buy-side and sell-side investment firms, trading venues and software and technology providers, conveying a broad view from across the industry. The consultation covers OTFs and potentially forcing software and tech providers to be authorised as trading venues.

23 – 27 November 2020: Speeches, Letters & Other Publications

During the week, ICMA released the following speeches, letters and publications that might be of interest to our readers:

- COVID-19: ICMA Asset Management & Investors Council market update – ICMA published its latest AMIC market update podcast reviewing the market events of the past two weeks, in light of COVID-19 outbreaks, recent economic indicators and central banks' upcoming meetings

Other Updates

We would like to bring to our ELFA readers' attention the following regulatory updates from regulators and associations we are not currently monitoring.

25 November 2020: IIRC and SASB announce intent to merge in major step towards simplifying corporate reporting system

The International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB) announced their intention to merge into a unified organisation, the Value Reporting Foundation, providing investors and corporates with a comprehensive corporate reporting framework across the full range of enterprise value drivers and standards to drive global sustainability performance. The Value Reporting Foundation will merge the SASB and IIRC into a credible, international organisation that maintains the Integrated Reporting Framework, advocates integrated thinking, and sets sustainability disclosure standards for enterprise value creation. The merger directly responds to calls from global investors and corporates to simplify the corporate reporting landscape, providing the market with a clear solution for communicating about the drivers of enterprise value.

26 November 2020: Central Bank of Sweden (Riskbank) publishes statement on zero policy rate and extended asset purchases

The Central Bank of Sweden (Riskbank) announced that it has decided to expand and extend the Riksbank's asset purchases from SEK 500 billion to up to SEK 700 billion up to 31 December 2021. The repo rate is held unchanged at zero per cent and is expected to remain at this level in the coming years.

30 November 2020

In the News

During the week, the Financial Times and Thomson Reuters published the following news that might be of interest to our readers.

Financial Times

- UK to stop using RPI inflation measure in 2030
  "The UK will stop using the controversial retail prices index inflation measure in 2030, the government has announced, in a move that saves billions for the taxpayer but will cut payouts to some pensioners and bondholders"

- UK inflation-linked bonds rise despite hit from RPI move
  "UK inflation-linked bonds have rallied in the wake of a government decision this week to reduce the interest payments they offer without providing any form of compensation to holders — a market reaction that has left some investors scratching their heads"

- UK Spending Review: There is no fiscal emergency
  "There is less than meets the eye to Rishi Sunak's spending review: the UK chancellor's statement to parliament offered few big changes to the budget trajectory the country was already on beyond additional short-term spending on the pandemic"

- Rishi Sunak launches £4bn fund to bridge regional inequality
  "A flagship fund to finance small-scale infrastructure projects was launched by Rishi Sunak on Wednesday aimed at delivering the government's levelling-up agenda to tackle regional inequality in England"

- Sunak should be wary of tokenism with green gilts
  "Unless the bonds are structured in a way that clearly ringfences the proceeds for environmentally friendly activities, they could be an exercise in state-sponsored greenwashing, according to Ashley Hamilton Claxton, head of responsible investment at Royal London Asset Management"

- UK public pension funds suffer £2bn hit to oil investments
  "The value of oil company shares owned by UK public pension funds has fallen by £2bn in less than four years as pressure mounts on retirement schemes to withdraw their support from environmentally damaging fossil fuel producers"

- UK local councils banned from making risky property bets
  "The British government has banned local authorities from buying up investment property after a near-£7bn spending spree left many councils heavily indebted and at the mercy of a downturn caused by coronavirus"

- MPs call on Europe's largest tour operator to furlough UK workers
  "British MPs have called on Europe's largest tour operator Tui to put hundreds of employees with seasonal contracts on furlough after the company refused to do so"

- The ethical mission of private equity
  "One model would see them roll up second-tier banks with unprofitable fintechs to create bigger rejuvenated lenders. For the Co-op or any other troubled bank, swapping the short-term interests of a posse of opportunist hedge funds for the long-term backing of a private equity buyer, has got to be a good trade"

- Aberdeen Standard targets women-led hedge funds with new strategy
  "Aberdeen Standard Investments, one of Europe's biggest asset managers, is set to launch a fund investing solely in hedge funds run by women, meeting demand from investors who are keen to foster diversity in a male-dominated industry and from those who believe greater diversity leads to better returns"

- AA agrees sale to private equity groups
  "AA, the motorway emergency service, is to return to private equity ownership after just six years in the public markets, as it seeks to pay down the massive debts that are a legacy from the previous time buyout groups owned the business"

- Mulberry warns London's luxury stores under threat
  "A combination of Brexit, high costs and the end of sales tax refunds for tourists could drive high-end retailers out of central London in the wake of the pandemic, the chief executive of luxury handbag group Mulberry has said"

- Cineworld secures funding lifeline
  "Cineworld, the world's second largest cinema chain, has secured more than $750m of extra funding after the closure of its screens across the US and UK forced it into emergency talks with lenders"

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- HSBC considers exit from US retail banking

  "HSBC is weighing up a complete exit from retail banking in the US after narrowing the options for how to improve performance at its struggling North America business, according to two people familiar with the situation"

- Amigo Loans warns of 'material uncertainty' over future

  "The group said on Thursday it had adequate liquidity to continue funding its operations, with £160m of cash as of November 25. However, it warned that there was material uncertainty surrounding the going concern due to the potential economic impact of Covid-19, uncertainty over future complaint volumes and the possible outcome of the ongoing FCA investigation"

- Virgin Money profits hit by £500m of provisions

  "Virgin Money's pre-tax profit fell by three-quarters in the year to October after it set aside £501m to cover bad loans in case the pandemic causes longer-term financial problems for its customers"

- ECB flags more stimulus ahead as financial conditions tighten

  "The European Central Bank has sent fresh signals that it is gearing up to inject more monetary stimulus into the eurozone's flagging economy, as its chief economist cited worrying signals that financial conditions for banks and small businesses are tightening"

- ECB signals lifting of ban on bank dividends next year

  "Eurozone banks will be allowed to pay dividends again from next year if they convince supervisors that their balance sheets are strong enough to survive the economic and financial fallout from the coronavirus pandemic, a senior European Central Bank executive has said"

- Departing ECB hawk draws red lines for fresh policy stimulus measures

  "Yves Mersch is preparing to take a final stand as one of the European Central Bank's dwindling band of conservative monetary policy hawks by resisting any broadening of its stimulus measures to purchase a wider array of assets than it already does"

- Europe's looming cash crunch

  "If companies want to take on more debt, then we'd be quite confident that banks or other backers would provide it, simply because the European Central Bank has been – and, in our view, will continue to be – pretty aggressive in responding to tighter credit conditions"

- Spanish banks seek firmer footing with round of mergers

  "Bitter economic climate has helped spur merger negotiations among Spain's largest banks, which investors say could usher in a wave of long-mooted consolidation across Europe"

- Spain's BBVA and Sabadell scrap merger talks over price dispute

  "The Spanish banks BBVA and Sabadell have given up merger talks they confirmed less than two weeks ago because of disagreements over the pricing of the deal"

- Sweden's central bank expands bond-buying to ease Covid economic hit

  "Sweden's central bank has expanded and extended its quantitative easing programme in an attempt to ease the economic effects of an increasingly damaging resurgence of the coronavirus pandemic"

- Portugal's 10-year bond yield drops below zero

  "Portugal's 10-year bond yield fell below zero for the first time on Thursday, as expectations of further asset purchases by the European Central Bank continued to stoke a relentless rally in eurozone debt. Investors expect the ECB to expand its €1.35tn emergency bond-buying programme at next month's policy meeting as it seeks to dull the economic effects of a second wave of coronavirus infections"

- Pandemic gives French fintechs the chance to prove their worth

  "French fintechs have had a relatively good crisis. The Covid-19 pandemic, which ripped through much of the country's economy, has not slowed down funding for financial start-ups"

- Fed minutes signal readiness to shift bond-buying tactics

  "Federal Reserve officials signalled that they were ready to make changes to their asset purchase programme if circumstances shifted, leaving the door open for new action but ruling out any immediate steps, according to minutes from their last policy meeting"

- It is too soon to shut down US pandemic lending programmes

  "Removing precautionary support available for small and midsized businesses, a crucial part of our economy, puts many at risk of unnecessary failure"

- Spring has sprung in debt markets but shareholders face a long winter

  "Getting through the Covid winter has been all about survival of the fattest. Now, with a vaccine on the horizon, lenders have been showing more willingness to support the scrawnier companies through hibernation"

- Financial conditions loosen to levels hit before Covid roiled markets

  "Global financial conditions have eased to levels seen before the coronavirus crisis rocked markets in March, reflecting central banks' success in soothing investor jitters"

- BlackRock aims for wealthy business with $1.05bn Aperio deal

  "BlackRock is paying an estimated 50 times underlying earnings to buy a specialist in personalised index investing, demonstrating its keenness to expand in the arena that services very wealthy clients. The world's largest asset manager is to buy California-based Aperio Group, which manages $36bn in tax-optimised separately managed accounts, for $1.05bn in cash from Golden Gate Capital, a private equity firm, and Aperio's employees who are part owners"

- BlackRock should split off its Aladdin tech platform, says think-tank

  "BlackRock should be forced to split off its technology platform Aladdin to curb the growing influence of the world's biggest asset manager, according to a report by a think-tank that is advising incoming US president Joe Biden"

- Chefs warn new Covid rules could kill US restaurants

  "One in six restaurants in the US have already closed, the Independent Restaurant Coalition noted this week, as it warned that a third could shut by the end of the year. An industry that employs 11m Americans has already been responsible for one in five of the pandemic's lost jobs"

- Credit Suisse set to take $450m hit as hedge fund York Capital retreats

  "Credit Suisse expects to take a $450m hit after York Capital Management, the US alternative investment group in which it owns a stake, said it would wind down its European hedge fund business"

- Market turmoil shows need for more hedge fund scrutiny

  "Once again hedge funds are facing increased scrutiny for their role in a crisis moment in financial markets. This time, regulators need to take more action. The Financial Stability Board, which gathers the world's leading financial regulators and finance ministries, this week released a comprehensive review of the turmoil that gripped financial markets in March. The report highlights the role played by non-bank market participants in fanning a fire that the US Federal Reserve ultimately put out with unprecedented liquidity. Yet the American counterpart to the FSB, the Financial Stability Oversight Council, has been notably silent"

- Ethical funds are booming but there are obstacles to momentum

  "A momentum trade in ESG stocks, where investors buy shares they think will continue rising, seems unlikely while there is such disagreement over what constitutes an ESG investment. In this respect, matters are getting worse"

- CFA forges ahead with ESG standard despite criticism

  "The CFA Institute has been forced to defend its efforts to create a global standard for environmental, social and governance investing after many asset managers poured cold water on the initiative"

- ESG: a trend we can't afford to ignore

  "Opportunities for sustainable investment used to be scarce, but today it is hard to find a company that does not have an ESG policy. Nine out of 10 of companies in the S&P 500 index produced sustainability reports in 2019. This creates a fresh set of problems: how do you decide when a business is genuinely motivated by these concerns and when its ESG claims are hot air"

- Investors step up pressure on companies over use of antibiotics

  "A dozen institutional investors with $7tn under management are joining forces to pressure food producers, restaurants, retailers and pharmaceutical companies to cut antibiotic usage and tackle the growing dangers of drug resistance to hundreds of thousands of patients"

- Green gold: how sustainability became big business for consumer brands

  "The proliferation of this huge range of green and eco-friendly goods has also worried regulators and prompted questions about whether sustainability claims are always truthful or clear to consumers"

- Beijing warns of crackdown on misconduct after bond defaults

  "Beijing has warned it will show zero tolerance for financial misconduct after several high-profile bond defaults by state-owned companies roiled the Chinese debt market"

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- Spate of Chinese defaults tests investor confidence

  "Just weeks after FTSE Russell, one of the world's most important bond index managers, announced plans to include Chinese debt beginning next year, a spate of defaults shed embarrassing light on the immaturity and weaknesses of China's bond market"

- Default concerns drive up borrowing costs for Chinese state companies

  "China's state-owned enterprises are being forced to issue bonds at higher interest rates after a slew of high-profile defaults shattered investor confidence in what was once seen as a risk-free asset class"

- Lessons from China's decision to halt Ant Group's giant IPO

  "One lesson of Ant's pulled IPO is surely that the best stance for private entrepreneurs is to remain low-key. The moment when being seen as rich was glorious is over — at least for private entrepreneurs"

- India falls into recession as pandemic weighs on output

  "India's economy contracted 7.5 per cent year-on-year in the quarter ending September, taking it into a technical recession as strict lockdown measures to deal with the coronavirus pandemic continued to weigh on output"

Thomson Reuters

- Bank of England's Haldane sees lasting scars from COVID-19 crisis

  "The coronavirus crisis will leave lasting scars in the form of higher debt and unemployment, missed education and mental health problems, especially for people on the lowest incomes, Bank of England Chief Economist Andy Haldane said"

- UK to sell record 485.5 bln pounds of bonds in 2020/21

  "Britain will issue a further 92 billion pounds ($123 billion) of government bonds over the next four months, taking the total for the financial year to a record 485.5 billion pounds, the United Kingdom Debt Management Office said"

- Instant View: Sunak says UK borrowing to soar

  "Britain will spend 280 billion pounds ($374 billion) this year to help its economy weather the COVID-19 pandemic, finance minister Rishi Sunak said, while government borrowing will hit a peacetime record of nearly 400 billion pounds"

- Factbox: Brexit and the City of London - what changes and when

  "Britain and the EU hope to reach a free trade agreement this week but financial services are being dealt with separately. The following are details about how the City of London's ability to access the EU and serve clients in the bloc will change"

- Frasers Group offers emergency loan to Philip Green's troubled Arcadia Group – Sky

  "Frasers Group, owned by billionaire retail boss Mike Ashley, has offered Philip Green's troubled Topshop retail group Arcadia a 50 million pound ($66.52 million) emergency loan, reported Sky News"

- Exclusive: Activist investor Ferrari targets environment, social laggards with new fund

  "Activist investor Gianluca Ferrari, who has led campaigns against a string of mid-cap firms, is setting up a fund targeting companies lagging on environmental, social and governance (ESG) issues"

- Amundi gives bond warning to State Bank of India over coal mine

  "Amundi said it has warned the State Bank of India it will evict one of the lender's green bonds from a flagship fund if it helps finance a coal mine in Australia that has met fierce opposition from environmental groups"

- Have coronavirus vaccines killed the gold rally?

  "Gold has tumbled from record highs as investors, eyeing an end to the coronavirus pandemic, move money to riskier assets"

- ECB sees lower inflation but growth outlook brighter: de Guindos

  "The European Central Bank expects prices in the euro zone to keep falling this year and rebound more slowly in 2021 than it previously thought even as the prospect of a coronavirus vaccine boosts the growth outlook, ECB vice president Luis de Guindos said in an interview"

- ECB emergency bond purchases to last while disruptions persist: Lane

  "The European Central Bank will continue its emergency bond purchases as long as the coronavirus pandemic continues to disrupt normal economic activity, ECB chief economist Philip Lane told French newspaper"

- ECB must enable governments to spend their way out of pandemic: report

  "The European Central Bank must keep borrowing costs super low to enable governments to spend their way out of a pandemic-induced recession, which threatens to hollow out production capacity, ECB board member Fabio Panetta told a Portuguese newspaper"

- Europe should ease state aid rules to help banks cope: Stournaras

  "Europe should ease state aid rules and protect bank deposits to shore up lenders struggling under the weight of the coronavirus pandemic, European Central Bank policymaker Yannis Stournaras said"

- Euro zone banks fall short of ECB's climate demands

  "Euro zone banks are failing to disclose even the most basic information about their exposure to climate change, the European Central Bank said"

- Analysis: Tested by taxonomy - EU green finance rules leaky for ships, tight for houses

  "Months of EU deliberation to decide which business activities can be marketed as green investments have produced a set of draft standards some finance officials and NGOs say are lax for the polluting shipping sector and challenging for buildings"

- Euro zone corporate vulnerability at levels seen in debt crisis: ECB

  "Euro zone firms are increasingly vulnerable amid a pandemic-induced recession but public support, including cheap cash from the European Central Bank, have limited the damage so far, a new ECB report showed"

- Vaccine promise stirs European dividend payout hopes

  "European dividend futures are stirring from their months-long slumber, reflecting investor expectations that positive COVID-19 vaccine updates on top of trillions of dollars in stimulus will fast-track an anticipated recovery in company profits"

- Dutch central bank urges banks to recognise loan losses quickly

  "The Dutch central bank (DNB) on Tuesday urged banks in the Netherlands to quickly write off company loans that have soured due to the coronavirus pandemic"

- We've been forgotten in COVID-19 easing, say French restaurants

  "Restaurant owner Jean Avarello is struggling to understand why in the next few weeks the shops and theatres near him in the French city of Marseille will be allowed to reopen after a COVID-19 lockdown, but he has to stay shut"

- UniCredit to hold extraordinary board meeting on governance: source

  "UniCredit is expected to hold an extraordinary board meeting on Sunday to discuss governance issues as Chief Executive Jean Pierre Mustier's mandate comes up for renewal in the spring"

- UPDATE 1-Norway extends duration of pandemic loan guarantees to airlines

  "Norway will extend the duration of pandemic-related loan guarantees given to airlines, the government said on Tuesday, but did not make additional funds available to crisis-hit Norwegian Air"

- Ireland extends credit guarantee scheme to end-June

  "The Irish government on Tuesday extended a 2 billion euro state-backed credit guarantee scheme for small and medium-sized businesses to the end of June, saying demand was increasing following an initial low take up"

- UniCredit working with GS, JPM as strategic advisers: sources

  "UniCredit is working with strategic advisers Goldman Sachs and JPMorgan, three people close to the matter said, as it prepares to update its business plan next year and weighs a potential acquisition of state-owned peer Monte dei Paschi"

- Alpha Bank picks Davidson Kempner as preferred bidder for $12 billion bad loans

  "Greece's Alpha Bank said on Monday that it picked U.S. investment fund Davidson Kempner as its preferred bidder to buy a 10.8 billion euros ($12.81 billion) portfolio of non-performing loans in what will be Greece's largest-ever sale of bad debt"

- Fed policymakers may give new bond-buying guidance 'fairly soon': minutes

  "U.S. Federal Reserve policymakers may soon give new guidance on their plans for asset purchases, including for how long and in what maturities, as they seek to provide more support to markets and the economy, minutes from their November policy-setting meeting show"

- Exclusive: U.S. watchdogs train sights on lender misconduct in pandemic aid program

  "U.S. federal agencies have begun scrutinizing lenders for potential misconduct when distributing $525 billion in pandemic aid to struggling small businesses, according to half a dozen people with knowledge of the matter, regulatory filings and statements"

- Analysis: With end of crisis programs, Fed faces tricky post-pandemic transition

  "The possible arrival of a coronavirus vaccine in the coming weeks means the Federal Reserve may soon have to lay out its plans for helping the economy navigate the potentially choppy transition to a post-pandemic world"

- U.S. loans $1.1 billion to Ginkgo Bioworks for pandemic effort

  "The U.S. government has agreed to loan privately-held biotechnology firm Ginkgo Bioworks $1.1 billion for COVID-19 testing and the production of raw materials for therapies that may help address future pandemics"

- Exclusive: Elliott Management invests in small Guyana oil explorer – sources

  "Activist hedge fund Elliott Management Corp has invested at least $30 million in Cataleya Energy, a small firm focused on oil exploration in Guyana, the world's newest oil and gas hot spot, two people familiar with the matter said"

- GM plans to seek banking charter for auto-lending business: WSJ

  "General Motors Co is planning to apply for a banking charter that would allow its lending unit to hold deposits and expand its auto-finance business, the Wall Street Journal reported on Friday, citing people familiar with the matter"

- Gold mining emissions draw scrutiny after price surge

  "Investors are putting pressure on gold miners, whose high greenhouse gas emissions have been less scrutinized, to report transparently and take concrete steps to curb them after a rally in prices this year drew closer attention to the sector's footprint"

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- [EXCLUSIVE-Auto service company Monro pushed by activist Ides to make changes]

  "Hedge fund Ides Capital has reached out to Monro's board and followed up with letters, urging the company to make changes that also include environmental, social and governance (ESG) improvements like diversifying its workforce and boardroom, according to the sources"

- Canada pension funds with combined $1.2 trillion under management ask companies to standardize ESG reporting

  "Canada's eight biggest pension funds on Wednesday threw their weight behind global efforts to improve corporate sustainability reporting, urging companies and their investment partners to report environmental, social and governance (ESG) data in a standardized way"

- Japan's export credit agency to lend $2 billion to Nissan for U.S. sales financing

  "Japan's state-owned export credit agency has agreed to give Nissan Motor Co up to $2 billion as part of a credit agreement to help it finance car sales in the United States"

- Japan's ANA to raise $3.2 billion in shares to fund 787 jet purchases

  "Japan's biggest airline ANA Holdings said on Friday it will issue new shares to raise $3.2 billion, much of which will be used to fund its orders of fuel-efficient Boeing 787 Dreamliner jets"

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Regulators and Associations Monitored

1. **FCA**
2. **BoE**
3. **The Pensions Regulator**
4. **FRC**
5. **ESMA**
6. **EBA**
7. **EIOPA**
8. **ECB**
9. **European Commission**
10. **BCBS**
11. **Autorité des Marchés Financiers (AMF) of France**
12. **CSSF**
13. **FINMA**
14. **CBI**
15. **ICMA**
16. **IOSCO**
17. **FSB**

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