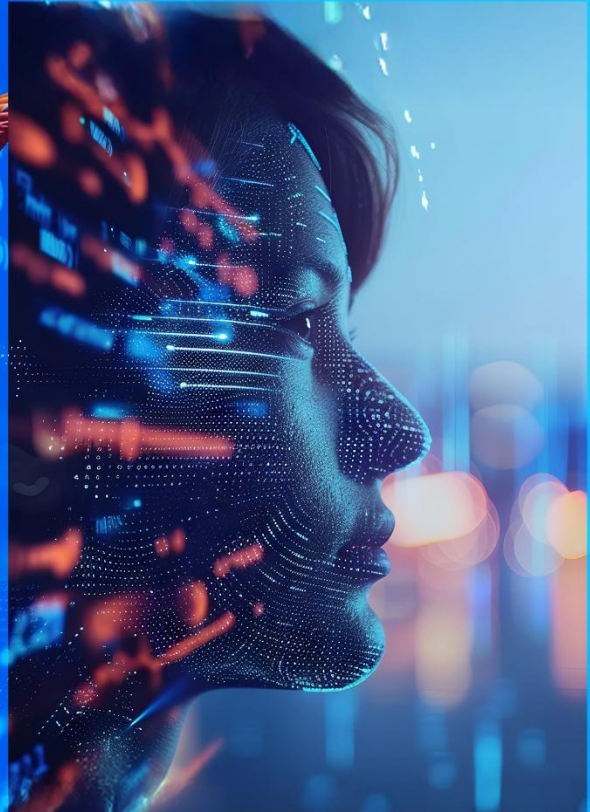




Regulatory Insights

Financial Services



March 2026

Anti-Money Laundering

AMLA concludes first public hearing on draft RTS under the AML/CFT framework

Publication date: 26 March 2026

What: On 24 March 2026, the Anti-Money Laundering Authority (AMLA) conducted its first public hearings on two draft Regulatory Technical Standards (RTS) issued for consultation under Regulation (EU) 2024/1624 (the Anti-Money Laundering Regulation, AMLR). The RTS concern (i) the identification of business relationships and transactions and (ii) Customer Due Diligence (CDD) requirements. They represent a key step in the level-2 implementation of the EU AML/CFT Single Rulebook and provide important insights into the future application of AML/CFT obligations across Member States and sectors.

The draft RTS form part of the legally binding level-2 framework under the AMLR. While they cannot amend level-1 legislation, they are intended to:

- supplement and operationalise AMLR requirements;
- reduce divergent national practices; and
- ensure uniform application of AML/CFT obligations across sectors.

Key points:

- Stakeholder engagement
 - The hearing brought together over 1,600 participants, including obliged entities from both the financial and non-financial sectors, as well as civil society organisations.
- Draft RTS discussed
- **RTS on Business Relationships under Article 19(9) AMLR**

This RTS specifies criteria for distinguishing between: (i) business relationships, (ii) occasional transactions, and (iii) linked transactions.

The classification is determinative for when CDD obligations are triggered. Key technical objectives include:

- harmonising qualification criteria across Member States;
- preventing circumvention of CDD through transaction splitting or structuring; and
- clarifying operational application where interactions are intermittent or digitally mediated.

AMLA proposes, inter alia, a functional (negative) definition whereby any interaction not qualifying as a business relationship is treated as an occasional transaction.

□ **RTS on Customer Due Diligence under Article 28(1) AMLR**

This RTS further specifies CDD requirements, including:

- information and documentation to be collected for simplified, standard and enhanced CDD;
- permissible simplified measures;
- risk factors relevant to electronic money products;
- acceptable verification sources; and
- requirements for electronic identification and trust services.

The RTS are designed to reinforce:

- a risk-based and proportionate approach;
- harmonisation across the EU;
- technological neutrality; and
- continuity with existing EU guidance, while introducing greater specificity and documentation requirements.

Compared to current frameworks, the RTS will require more granular and explicitly reasoned CDD documentation, rather than reliance on high-level or generic descriptions.

Anti-Money Laundering (continued)

□ Supporting materials

- Presentation materials from the public hearing are available at the following links:

- ❖ [Customer Due Diligence – Article 28\(1\) AMLR](#)

- ❖ [Business Relationships – Article 19\(9\) AMLR](#)

▪ Next steps:

- *Implementation and transitional aspects*

- ✓ During the hearing, AMLA clarified that:

- ✓ new customers onboarded after July 2027 must comply fully with the AMLR and RTS; and existing customer files must be updated in line with Article 26 AMLR on a risk-based basis, prioritising higher-risk customers.

- ✓ AMLA confirmed that there is no obligation to remediate all existing customer files by July 2027, provided updates are implemented in accordance with risk-based internal policies.

- ✓ AMLA also indicated that additional RTS on intra-group information sharing are in preparation, which will further clarify the reuse and sharing of CDD information within groups.

- Written consultations on both RTS remain open until 8 May 2026.

- **Medium impact:** reinforces AMLA's commitment to stakeholder-driven rulemaking and signals continued refinement of core AML/CFT RTS central to the EU Single Rulebook.

📄 **FATF flags illicit finance risks linked to stablecoins and unhosted wallets**

Publication date: 3 March 2026

What: The Financial Action Task Force (FATF) published a [Targeted Report on](#)

[Stablecoins and Unhosted Wallets](#),

highlighting growing money laundering, terrorist financing and proliferation financing risks arising from the misuse of stablecoins, particularly through peer-to-peer (P2P) transactions involving unhosted wallets and setting out recommended actions for jurisdictions and the private sector.

Key points:

□ [Scale and misuse trends](#)

- Stablecoins expanded rapidly, with over 250 stablecoins in circulation and a total market capitalisation exceeding USD 300 billion by mid-2025.
- According to Chainalysis data cited by FATF, stablecoins accounted for 84% of illicit virtual asset transaction volume in 2025, often involving unhosted wallets and complex laundering techniques.
- The report highlights misuse by organised criminals, terrorist financiers and state-linked cybercriminal groups, including: DPRK-linked actors laundering proceeds from ransomware and phishing.
- Iranian actors leveraging stablecoins for proliferation financing.

□ [Risk drivers](#)

- Stablecoins' price stability, liquidity and interoperability support legitimate use but also increase their attractiveness for illicit purposes.
- P2P transactions via unhosted wallets occur without the involvement of regulated intermediaries, limiting preventive controls.

Anti-Money Laundering (continued)

- Cross-chain activity presents challenges for stablecoin issuers, potentially placing transactions outside traditional AML/CFT frameworks.

❑ Regulatory gaps

- FATF notes that only a limited number of jurisdictions have implemented targeted regulatory frameworks addressing the specific risks of stablecoin arrangements.
- While FATF Standards do not mandate a separate regime for stablecoins beyond existing VASP requirements, jurisdictions are urged to adopt risk-based, proportionate measures reflecting stablecoins' distinct characteristics.

Mitigating measures and good practices

❑ Regulatory expectations

- Full implementation of FATF Recommendation 15, ensuring that stablecoin issuers, intermediary VASPs, financial institutions and other relevant actors are subject to clear AML/CFT obligations.

❑ Issuer controls

Require stablecoin issuers to implement risk-based technical and governance measures, including:

- The ability to freeze, burn or withdraw stablecoins in the secondary market.
- CDD at redemption.
- Smart-contract controls such as allow-listing and deny-listing of addresses, where appropriate.

❑ Supervisory and law enforcement capacity

Strengthen authorities' technical capabilities, including expertise in:

- Smart contracts and cross-chain mechanics.
- Blockchain analytics tools.
- Monitoring risks related to P2P transactions via unhosted wallets.

❑ Cooperation and partnerships

- Ensure competent authorities have legal tools and cooperation mechanisms (including MoUs) for swift domestic and international action, particularly for freezing or burning stablecoins.
- Promote public-private partnerships to share typologies, risk indicators and emerging threats, alongside operational collaboration in investigations.

❑ Evidence base

- The report draws on over 50 submissions from the FATF Global Network and includes case studies demonstrating how advanced technologies and blockchain analytics have been used to detect and disrupt illicit activity involving stablecoins.

● **Medium–high impact:** reinforces global expectations for enhanced oversight of stablecoin ecosystems, with implications for VASPs, issuers, compliance frameworks and supervisory coordination, particularly in relation to unhosted wallets and cross-chain activity.



Asset Management

ESMA reports declining retail investment costs driven by new funds

Publication date: 3 March 2026

What: ESMA published its [2025 Costs and Performance Report](#), analysing trends in costs, performance and investor outcomes for EU retail investment products, including UCITS, AIFs and structured retail products.

Key points:

Cost trends

- Ongoing costs for EU retail investment funds continued to decline in 2024, largely driven by new funds entering the market, which typically charge lower fees.
- Cost reductions for long-standing funds remained limited, highlighting uneven benefits for investors.

UCITS

- Ongoing costs fell by 8% for retail equity funds and almost 15% for retail bond funds, mainly due to new fund launches.
- Existing funds saw smaller reductions (3% for equity, 9% for bond funds).
- Performance improved significantly in 2024, with positive real net returns across all UCITS categories, marking a strong recovery from 2023.

ESG funds

- ESG UCITS continued to have lower costs than non-ESG funds.
- However, ESG funds underperformed non-ESG counterparts, and SFDR Article 9 funds delivered lower returns than Article 6 funds in 2024.

Alternative Investment Funds (AIFs)

- AIFs remained predominantly professional-investor focused.
- Retail participation declined from 14% in 2022 to 9% in 2024.

- Net returns were positive across all AIF categories in 2024.

Structured retail products

- Costs remained broadly stable.
- Interest-rate-linked products continued to gain market share, reaching 27% in 2024 (up from 1% in 2021).
- Products maturing in 2024 delivered positive gross returns, excluding investor costs.

Regulatory message:

ESMA highlighted that declining headline costs do not automatically translate into improved investor outcomes. It stressed the need for effective cost transparency, competitive pressure, and informed product design, alongside firms' best-interest obligation, to ensure that cost reductions, particularly those driven by new fund launches, deliver tangible benefits to retail investors.

- **Medium impact:** Highlights ongoing supervision of fund costs and investor value.



Asset Management *(continued)*

IOSCO publishes 2025 Investment Funds Statistics Report and updates global dashboard

Publication date: 24 March 2026

What: The International Organization of Securities Commissions (IOSCO) published its [2025 Investment Funds Statistics Report](#) (IFSR) together with an updated [Investment Funds Dashboard](#). The IFSR provides a global overview of the size, composition and risk characteristics of both public and private investment funds, drawing on regulatory and publicly available data for 2024.

Key points:

Scope and coverage

- The IFSR is the only publicly available global dataset aggregating statistics on hedge funds, open-ended funds and closed-ended funds across jurisdictions. The fourth edition of the report includes data from 38 IOSCO member jurisdictions, covering 128,389 funds and representing approximately USD 72.6 trillion in aggregate Net Asset Value (NAV), around 85% of the global investment funds industry.

Data sources and methodology

- The report is based on regulatory data collected through existing reporting frameworks, complemented by publicly available sources. While reporting coverage varies by jurisdiction and fund type, IOSCO highlights methodological considerations and data limitations where relevant to support appropriate interpretation.

Market trends and fund characteristics

- The data indicate continued growth in aggregate NAV across major fund types during 2024, alongside relatively stable overall risk profiles.
- Investment activity remains concentrated in a limited number of jurisdictions and

asset classes, with distinct strategy and risk characteristics observed across different fund types.

Leverage, liquidity and counterparty risk

- Borrowing and leverage levels remain significantly lower in open-ended and closed-ended funds than in hedge funds. The report provides insight into leverage, derivatives usage, liquidity risk and counterparty exposures, supporting financial stability monitoring and macro-prudential analysis.

Dashboard enhancements

- The updated IOSCO dashboard facilitates visualisation and comparison of trends across jurisdictions and fund types. It supports a deeper understanding of global developments, particularly in relation to leverage, liquidity risk and interconnectedness within the financial system.

IOSCO perspective

- IOSCO emphasises that this fourth edition offers the widest jurisdictional coverage to date, providing a consistent, high-level snapshot of global fund activity to inform regulators, investors and other stakeholders.

Medium impact: enhances transparency and data availability on global investment funds, supporting risk monitoring, supervisory assessment and policy discussions, particularly in relation to leverage, liquidity and counterparty risk.



EBA publishes final Guidelines on capital endowment instruments for third-country branches

Publication date: 2 March 2026

What: The European Banking Authority (EBA) published its [final Guidelines on instruments eligible for the capital endowment requirement for third-country branches](#) under the Capital Requirements Directive (CRD). The Guidelines aim to ensure that capital endowment assets are available, reliable and effective in protecting local depositors and creditors.

Key points:

Scope and objective

- The Guidelines set out the types of instruments that third-country branches may use to meet their capital endowment requirement.
- They also specify minimum operational conditions to ensure such instruments remain unrestrictedly and immediately available to absorb risks or losses.
- The overarching objective is to ensure that capital endowment assets either protect local depositors or remain available to meet claims in the event of resolution or winding-up of a third-country branch.

Eligible instruments

EBA has identified as eligible financial instruments issued or guaranteed by highly creditworthy entities, including:

- Central, regional or local governments
- Central banks
- Public sector entities
- Multilateral development banks
- International organisations.

Eligibility is limited to instruments that would attract a 0% risk weight under the standardised approach for credit risk, ensuring high quality and liquidity.

The Guidelines clarify minimum operational requirements that third-country branches must meet to ensure capital endowment instruments:


- Are legally and operationally accessible to the branch
- Can be used without delay or restriction
- Remain available in scenarios of resolution or winding-up.

Legal basis

- Article 48e(2) of Directive 2013/36/EU specifies the forms of instruments that may be used as capital endowment assets, including “any other instrument” available for immediate and unrestricted use to absorb losses.
- Article 48e(4) mandates the EBA to define the requirements applicable to such “other instruments,” forming the legal basis for these Guidelines.

Consultation and implementation

- The final Guidelines build on a public consultation conducted in 2025, during which stakeholders provided feedback on the proposed list of eligible instruments and operational conditions.
- They support the consistent implementation of the new third-country branch regime introduced under the CRD across Member States.
- The Guidelines will apply from 11 January 2027.

 **Medium impact:** provides regulatory clarity and harmonisation on capital endowment requirements for third-country branches, with practical implications for treasury, capital planning and supervisory engagement.

EBA establishes harmonised reporting standards for third-country branches

Publication date: 5 March 2026

What: EBA published [its final Report on draft Implementing Technical Standards \(ITS\) on the supervisory reporting of third-country branches](#) under the Capital

Requirements Directive (CRD VI). The reporting framework aims to strengthen supervisory oversight while ensuring proportionality, clarity and operational feasibility for reporting entities.

Key points:

Harmonised reporting framework

- The ITS introduce uniform reporting formats, definitions and reporting frequencies, supporting consistent and comparable supervisory information across the EU.
- The framework is designed to deliver high-quality supervisory data while limiting unnecessary burden on third-country branches.

Entities in scope and reporting

- The ITS adopts the principle of proportionality through the classification of TCBs into two categories. This classification aims at adjusting regulatory requirements to the size, complexity and risk profile of TCBs:
- ❖ **“Class 1”** TCBs must report at least twice a year. Pursuant to Article 48a of CRD VI, these are TCBs that meet any of the following criteria:
 - ✓ The value of assets booked or originated by the TCB in the previous year is EUR 5 billion or more.
 - ✓ The branch accepts retail deposits or other repayable funds from retail customers that are at least equal to or greater than 5% of the TCB’s total liabilities, or the total amount of retail deposits exceeds EUR 50 million.

- ✓ The TCB is not a qualifying third-country branch as defined in Article 48b of CRD VI.

- ❖ **“Class 2”** includes any TCB that does not qualify as Class 1 and must report at least once a year.

Regulatory requirements are tailored by reference to a risk sensitive supervisory approach.

- Smaller and less complex TCBs submit a core set of key data, while larger and more complex TCBs report additional details.
- There are two sets of regulatory templates: one for TCB-level financial and regulatory information, and one for head undertaking-level quantitative and qualitative data. Some of this information was not previously reported under CRD V.
 - ✓ **Annex 1:** templates on the branch’s financial and regulatory situation (capital endowment, balance sheet, Profit and Loss (P&L), liquidity, large exposures, booking arrangements, etc.).
 - ✓ **Annex 2:** templates on the head undertaking (group structure, prudential status, key metrics, intra-group dependencies, booking model, etc.).

All TCBs must submit a core set of data (core + supplement approach). Additional “supplement” templates are required only for Class 1 branches, reflecting their greater systemic relevance and risk. The new regime requires publication of information on the head undertaking, including prudential compliance, group-wide metrics and dependencies. This is a significant extension compared to previous practice.

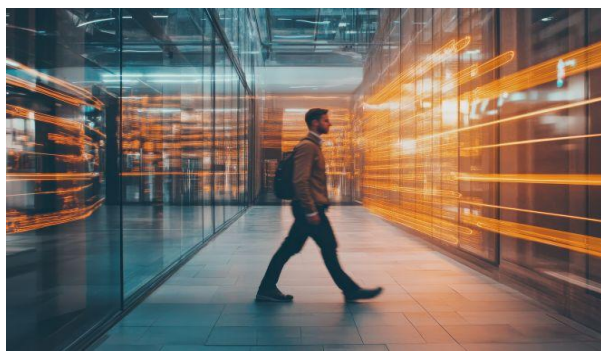
Banking & Finance (continued)

□ Key refinements following consultation

- The final Report incorporates feedback from the public consultation and includes targeted simplifications, notably:
 - Postponement of the first reporting reference date to 31 March 2027;
 - Extended remittance deadlines for certain templates;
 - Streamlined reporting templates and instructions to improve usability.

Next steps:

- Following submission of the ITS to the European Commission, the EBA will develop the Data Point Model (DPM), XBRL taxonomy and validation rules.
- The technical reporting package is expected to be published in Q2 2026.
- The new reporting requirements will apply from 31 March 2027.
- **Medium impact:** enhances supervisory consistency and transparency for third-country branches while reinforcing proportionality, with operational and systems implications in advance of the 2027 go-live.



📄 **EBA consults on regulatory products for Initial Margin Model Authorisation (IMMA)**

Publication date: 17 March 2026

What:

EBA launched two public consultations on draft [Guidelines](#) and [draft Regulatory Technical Standards](#) (RTS) relating to Initial

Margin Model Authorisation (IMMA) under the revised European Market Infrastructure Regulation (EMIR 3). The proposals aim to ensure a robust, efficient and harmonised authorisation framework for internal initial margin models used for non-centrally cleared derivatives across the EU.

Key points:

□ Regulatory context

- Under EMIR 3, counterparties using internal initial margin models are required to obtain prior authorisation from their National Competent Authority (NCA).
 - The draft Guidelines and RTS are intended to promote a transparent, predictable and consistent supervisory approach across Member States.
- ##### □ Draft Guidelines
- Specify the minimum information and documentation requirements that counterparties must submit for an IMMA application to be considered complete.
 - Build on the information set out in the Annex to the EBA's No Action Letter on EMIR, published in December 2024.
 - The [No Action Letter](#) will cease to apply once the new Guidelines enter into force.

Draft RTS

- Define the assessment techniques that competent authorities will apply when authorising internal initial margin models.
- Apply only to counterparties belonging to groups with an Aggregate Average Notional Amount (AANA) of non-centrally cleared OTC derivatives exceeding EUR 750 billion.
- Where an internal model relies on a pro-forma model, prior validation by the EBA will be required before NCA authorisation.

Consultation process

- The consultations are open until 17 June 2026.

Banking & Finance (continued)

- A public hearing will take place on 4 May 2026, from 10:00 to 12:00 CEST.
- Registration deadline: 30 April 2026 at 16:00 CEST.
- **Medium impact:** clarifies supervisory expectations for IMMA under EMIR 3, with significant implications for large derivatives users, model governance, documentation standards and supervisory engagement.



EBA publishes final draft amending RTS shortening timelines for prior permission to reduce own funds and eligible liabilities

Publication date: 19 March 2026

What: The European Banking Authority (EBA) published its final draft amending Regulatory Technical Standards (RTS) on own funds and eligible liabilities, reducing the timeframe for competent and resolution authorities to assess institutions' applications for prior permission to reduce own funds and eligible liabilities instruments from four months to three months.

Key points:

- **Objective and rationale**

The amendments aim to streamline supervisory processes by reflecting the increased experience of competent and resolution authorities in assessing prior permission applications.

According to the EBA, this allows authorities to carry out assessments more efficiently while maintaining the

robustness of the approval process.

- **Reduced assessment timeline**

The RTS shorten the maximum assessment period for applications to reduce own funds and eligible liabilities instruments from four months to three months.

This change is intended to reduce unnecessary regulatory burden and provide greater predictability for institutions in planning capital and liability management actions.

- **Removal of simplified procedure for liquidation entities**

Following the entry into force of Directive (EU) 2024/1174 (the *Daisy Chain Act*), liquidation entities are no longer required to obtain prior permission to reduce eligible liabilities instruments.

As a result, the RTS provisions establishing a simplified assessment procedure for such entities have been deleted.

- **Legal framework**

The amendments update the Commission Delegated Regulation on own funds and eligible liabilities. They align the RTS with recent legislative changes under EU banking and resolution law, in particular Directive (EU) 2024/1174.

- **Medium impact:** reduces approval timelines and administrative burden for credit institutions, with practical implications for capital planning, issuance programmes and liability management, while ensuring alignment with the updated EU resolution framework.

EBA: European banking sector enters period of geopolitical uncertainty from a position of strength

Publication date: 23 March 2026

What: EBA published its [Q4 2025 Risk Dashboard \(RDB\)](#), confirming that the EU/EEA banking sector remains robust, with strong capitalisation, ample liquidity and solid asset quality, despite rising global uncertainty linked to renewed conflict in the Middle East. For the first time, the RDB is published alongside the new CRR3/CRD6 dashboard, which replaces the former Basel III monitoring report.

Key points:

Exposure to Middle East and geopolitical risks

- The RDB includes enhanced disclosures on EU/EEA banks' direct exposures to counterparties located in the Middle East, which totaled EUR 132bn at end-2025. This includes approximately EUR 47bn in exposures to banks and other financial institutions and EUR 33bn to non-financial corporations.
- Overall exposures remain limited (below 0.5% of total banking sector assets), although heightened tensions could generate second-round effects through higher energy prices, inflationary pressures, weaker global growth and supply-chain disruptions, particularly affecting energy-intensive sectors.

Capital and profitability

- Risk-weighted assets increased by just over 1% in 2025, reaching EUR 10.2 trillion in Q4. The CET1 ratio (transitional under CRR3) remained stable at 16.3%, while return on equity stayed in double digits at 10.4%. After declining earlier in the year, the net interest margin recovered slightly to 1.6%, suggesting a potential stabilisation. The cost-to-income ratio increased to its

highest level since March 2023, reflecting rising operating costs and seasonal effects.

Asset quality and lending trends

- Total assets remained broadly stable at EUR 29.1 trillion, while outstanding loans increased by more than 1%, driven mainly by residential real estate lending and financing to SMEs.
- Non-performing loans declined slightly to EUR 370bn, keeping the NPL ratio stable at 1.8%.
- Stage 2 loans continued to fall to 9.1%, indicating improving asset quality ahead of potential stress materialisation.

Liquidity and funding

- Liquidity conditions strengthened further, with the Liquidity Coverage Ratio (LCR) rising to 163.1% and the Net Stable Funding Ratio (NSFR) increasing to 126.9%.
- The loans-to-deposit ratio continued to decline, reaching 104.8%, supported by growth in household and NFC deposits, while reliance on wholesale and central bank funding declined.

CRR3/CRD6 dashboard and output floor impact

- The newly released CRR3/CRD6 dashboard provides forward-looking projections of capital metrics over the output floor phase-in period (2025–2030).
- Under the fully-loaded framework, the average CET1 ratio would decline modestly but remain robust at around 15.3%, reflecting a 4.7% increase in Tier 1 minimum capital requirements.
- The number of institutions bound by the output floor is expected to rise from 2 (December 2025) to 33 under full implementation.
- No capital shortfalls are projected before 2030; any shortfalls thereafter are expected to be manageable, giving banks time to adjust.

Banking & Finance (continued)

● **Low-to-medium impact:** confirms the resilience of the EU/EEA banking sector amid rising geopolitical risk, while providing forward-looking insights into capital implications under CRR3/CRD6 and the output floor.

📄 **EBA publishes its second MREL impact assessment report**

Publication date: 24 March 2026

What: EBA published its [second Impact Assessment Report](#) on the Minimum Requirement for own funds and Eligible Liabilities (MREL), assessing the effects of the MREL framework on EU institutions, funding structures and financial markets. The report confirms that EU banks have continued to build up MREL resources and improve market access with limited impact on their business models, although structural challenges persist for smaller banks.

Key points:

❑ Build-up of MREL resources

- Between 2022 and 2024, EU banks continued to issue MREL-eligible instruments to meet final targets applicable from 1 January 2024. By end-2024, resolution entities held MREL-eligible resources amounting on average to 34.7% of Total Risk Exposure Amount (TREA).

❑ Issuance activity and market access

- The introduction of MREL requirements has driven issuance across the banking sector, with EUR 371bn of MREL-eligible instruments issued in 2024.
- While the framework has supported improved market access for smaller banks and Multiple Point of Entry (MPE) groups, structural and cost-related challenges remain, particularly for smaller institutions with limited access to wholesale funding markets.

❑ Composition of MREL resources

- The composition of MREL resources reflects both regulatory subordination

requirements and differences in funding capacity across institutions.

Senior Non-Preferred (SNP) instruments have become the dominant form of eligible debt.

- Larger banks issue across multiple subordination layers, while smaller banks rely more heavily on retained earnings and CET1 capital.
- Overall, own funds remain the largest component of MREL, accounting for 20.5% of TREA on average.

❑ Impact on business models and structures

- Authorities reported no material changes to banks' business models that can be directly attributed to MREL.
- However, smaller and deposit-funded institutions face higher compliance costs and operational complexity compared to larger banks active in wholesale markets. Structural adjustments within banking groups have been limited and are primarily driven by broader resolvability considerations rather than MREL requirements alone.

❑ Legal basis and broader context

- The report is published pursuant to Article 45l(2) of the Bank Recovery and Resolution Directive (BRRD), which mandates the EBA to deliver an impact assessment every three years.
- This represents the final report under the current mandate.
- In parallel, the EBA is considering potential ways to streamline the capital and Total Loss-Absorbing Capacity (TLAC) /MREL framework, in line with its broader work on regulatory and supervisory efficiency.

● **Medium impact:** confirms progress in meeting MREL targets and developing market access, while highlighting ongoing structural challenges, particularly for smaller institutions, with implications for funding strategies, resolvability planning and compliance costs.

Banking & Finance (continued)

📄 ESAs' Spring 2026 risk update highlights geopolitical pressures and rising private finance risks

Publication date: 27 March 2026

What: The European Supervisory Authorities (EBA, EIOPA and ESMA – the ESAs) published their [Spring 2026 Joint Committee update on risks and vulnerabilities in the EU financial system](#). The update focuses on the financial stability implications of ongoing geopolitical tensions, notably the war in the Middle East, and the growing importance and risks of private finance.

Key points:

❑ Geopolitical risks and market volatility

- The ESAs warn that heightened geopolitical tensions, in particular the conflict in the Middle East, continue to pose significant risks to the global financial system through higher energy prices, inflationary pressures and weaker economic growth.
- They reiterate earlier concerns about the risk of sudden asset repricing and liquidity declines, particularly given elevated equity valuations and compressed bond spreads, which could amplify market volatility and revaluations.
- Higher interest rates may further tighten funding conditions and negatively affect asset quality.
- Tensions around the Strait of Hormuz and airspace closures raise multi-line risks for insurers, although war exclusions are expected to limit net losses.
- More broadly, geopolitical events and cyber-attacks could disrupt critical infrastructures and generate systemic shocks.

❑ Emerging risks linked to private finance

- The update highlights growing vulnerabilities in private finance markets, driven by limited data availability, low transparency, prolonged growth and complex, opaque interconnections with the wider financial system. These characteristics increase the risk of sudden shifts in investor liquidity and spillover effects to other segments of the financial system.

- Recent developments in certain US private credit funds, including those linked to rapid changes in business models driven by AI adoption, illustrate potential vulnerabilities stemming from shifts in investor sentiment.

❑ Overall resilience of the EU financial sector

- Despite the challenging environment, the EU financial system remains broadly resilient.
- The insurance sector and Institutions for Occupational Retirement Provision (IORPs) continue to display robust capital and funding positions.
- In the banking sector, capital ratios remain high, while liquidity positions and asset quality are solid.
- Direct exposures to countries most affected by the war remain limited.

❑ Supervisory expectations and vigilance

- Given ongoing geopolitical uncertainty, the ESAs call on supervisors and market participants to maintain heightened vigilance.
- This includes proactive risk assessments, prudent management of sovereign exposures, and the integration of geopolitical considerations into risk management frameworks. Potential indirect effects via energy prices and exposures to sensitive sectors should be closely monitored.
- Financial institutions, authorities and investors are also encouraged to carefully monitor and manage risks arising from private markets, particularly in light of increasing exposures, limited transparency and possible changes to risk profiles linked to upcoming Solvency II 2027 reforms.

❑ Background

- The Spring 2026 Joint Committee update was presented to the Financial Stability Table of the EU Economic and Financial Committee (FST-EFC) on 19–20 March 2026, as part of the ESAs' contribution to EU-level financial stability monitoring.

🟡 **Medium impact:** reinforces supervisory concern around geopolitical developments and private finance, with implications for risk management, market monitoring and supervisory engagement across all financial sectors.

EBA streamlines supervisory approvals for IRB model changes

Publication date: 30 March 2026

What: The European Banking Authority (EBA) published [revised Regulatory Technical Standards \(RTS\) on material changes to Internal Ratings Based \(IRB\) models](#), aiming to make the supervisory approval process more efficient. The amendments significantly reduce the number of model changes classified as material, allowing supervisors to apply a more risk-based and proportionate approach, while easing the administrative burden on banks and authorities.

Key points:

Reduced scope of material model changes

- The revised RTS recalibrate the criteria used to determine whether a change to an IRB model is material and therefore subject to prior supervisory approval.
- Stronger reliance is placed on quantitative thresholds, substantially reducing the volume of changes requiring approval, while preserving adequate supervisory visibility.

Focus on genuinely significant changes

- Qualitative triggers are now limited to changes involving model redevelopments, re-estimation of risk parameters, or significant changes to definitions of default. Routine model maintenance changes will generally be subject to notification only, unless they exceed the defined quantitative thresholds.

Supervisory efficiency and remediation

- The amendments respond to the high volume of material change applications, which has strained supervisory resources and resulted in lengthy approval timelines. By reducing approval bottlenecks, the revised RTS are expected to support timelier remediation of model deficiencies

and smoother model improvements, enhancing effective model use.

Alignment with CRR3


- The RTS have been updated to align with the CRR3 framework, removing references to approaches no longer in the EU prudential framework, including the IRB approach for equity exposures and the Advanced Measurement Approach (AMA).

Coordination with ECB initiatives

- The revised RTS complement parallel work undertaken by the European Central Bank (ECB) to simplify its own approval processes for material model changes.
- Together, these initiatives are expected to lead to quicker and more predictable IRB approvals across the EU, both at ECB and national competent authority level.

Legal basis and context

- The RTS are developed pursuant to Article 143(5) of Regulation (EU) No 575/2013 (CRR).
- They also contribute to the EBA's broader work on improving the efficiency of the EU regulatory and supervisory framework, notably Recommendation 2.4 of the EBA's report on supervisory efficiency.

 **Medium impact:** reduces supervisory bottlenecks and administrative burden for IRB banks, with implications for model governance, remediation timelines and supervisory engagement.



Banking & Finance (continued)

European Commission adopts amending RTS to align immovable property risk weights with CRR3

Publication date: 10 March 2026

What: The European Commission adopted a Delegated Regulation amending the Regulatory Technical Standards (RTS) set out in Commission Delegated Regulation (EU) 2023/206. The amendments are technical in nature and ensure consistency with changes introduced to the Capital Requirements Regulation (CRR) by Regulation (EU) 2024/1623 (CRR3).

Key points:

Alignment with CRR3 renumbering and terminology

- The Amending Regulation updates cross-references and terminology in the RTS to reflect the structural and substantive changes introduced by CRR3.
- In particular, references to Article 124 CRR have been aligned following its renumbering and revision under CRR3 in relation to preferential risk weights for exposures secured by immovable property under the Standardised Approach.

Clarification of supervisory powers under the IRB Approach

- The amendments also reflect updated terminology in Article 164 CRR, which now refers to the power of the authority designated under Article 164(5) CRR to set Loss Given Default (LGD) input floor values, rather than higher minimum LGD values.
- These powers apply to exposures located in one or more parts of a Member State's territory under the Internal Ratings Based (IRB) Approach.

EBA contribution and legal process

- The Delegated Regulation is based on the final draft RTS developed by the European Banking Authority (EBA) and published in

December 2025.

- The amendments are intended to ensure legal clarity and consistency across the EU prudential framework following the entry into force of CRR3.

Entry into force and application

- The Delegated Regulation will enter into force 20 days after its publication in the Official Journal of the European Union. It will be directly applicable in all Member States, without the need for national transposition.
- **Low impact:** Technical alignment of RTS with CRR3, improving legal clarity and consistency for institutions applying risk weights to immovable property exposures under the Standardised and IRB Approaches.

European Commission amends MREL reporting ITS

Publication date: 11 March 2026

What: EU Commission Implementing Regulation (EU) 2026/519, published in the Official Journal on 11 March 2026, amends the Implementing Technical Standards (ITS) set out in Regulation (EU) 2021/622 on MREL reporting. The amendments update the frequency and scope of information to be reported to the European Banking Authority to reflect recent changes to the MREL framework.

Key points:

- The amended ITS are addressed to resolution authorities and are technical in nature, without introducing significant substantive changes.
- The Regulation entered into force on 31 March 2026 and is directly applicable in all Member States.
- **Low impact:** technical update ensuring consistency of MREL reporting with the revised regulatory framework.

Banking & Finance *(continued)*

European Parliament adopts new rules to strengthen EU bank resolution and depositor protection

Publication date: 26 March 2026

What: On 26 March 2026, the European Parliament [adopted new rules](#) expanding the scope of the EU framework for the orderly resolution of failing banks, with the objectives of minimising economic disruption, protecting depositors and reducing reliance on taxpayer support.

Key points:

Expanded scope of the resolution framework


- The new rules broaden the range of banks subject to EU resolution legislation, allowing authorities to manage bank failures more effectively while safeguarding public finances.

The framework will also apply to small and medium-sized banks where resolution is deemed to be in the public interest, strengthening financial stability across the EU.

Enhanced depositor protection and repayment hierarchy

- In insolvency or resolution proceedings, Deposit Guarantee Schemes (DGS), which protect deposits up to €100,000 per depositor per bank, are granted the highest priority in the creditor hierarchy. Retail depositors and Micro, Small and Medium-Sized Enterprises (MSMEs) rank second, followed by small public authorities (such as municipalities and regional governments), provided they are not professional investors.
- Beyond the standard guarantee, certain temporary high-balance deposits linked to real estate transactions will receive enhanced protection, ranging from €500,000 to €2.5 million, depending on the circumstances.

Access to resolution funding for smaller banks

- To access external resolution financing, shareholders and creditors must first absorb losses of at least 8% of Total Liabilities and Own Funds (TLOF).
 - The new rules allow DGS funds to contribute to meeting this threshold through a “bridge-the-gap” mechanism, where deposit-funded banks lack sufficient loss-absorbing capacity. This is intended to facilitate an orderly transfer of activities and market exit without destabilising the financial system.
 - Members of the European Parliament pushed for simplified conditions for using this mechanism, to ensure it remains operationally viable, particularly for small and medium-sized banks.
 - In parallel, the rules expand the preventive and alternative use of DGS funds outside formal resolution or insolvency, allowing earlier intervention where it is less costly than payout and supports financial stability. Safeguards are maintained to ensure that such use remains exceptional, proportionate and consistent with depositor protection objectives.
 - Member States may also allow the use of DGS funds for preventive or alternative measures, either to prevent bank failure or to ensure depositors’ continued and timely access to covered deposits in insolvency scenarios.
-  **Medium impact:** strengthens depositor protection and extends resolution tools to a wider range of banks, with significant implications for bank resolution planning, DGS funding arrangements and financial stability across the EU.

Banking & Finance *(continued)*

European Commission amends ITS on use of the EBA single access point for disclosures

Publication date: 27 March 2026

What: [EU Commission Implementing Regulation \(EU\) 2026/722](#) of 26 March 2026, published in the Official Journal on 27 March 2026, amends the implementing technical standards laid down in Implementing Regulation (EU) 2024/3172 regarding the implementation and use of the EBA single access point for disclosures by institutions other than small and non-complex institutions.

Key points:

The amendments are technical in nature and concern the operational use of the EBA single access point for regulatory disclosures. The Implementing Regulation enters into force on the twentieth day following its publication in the Official Journal.

● **Low impact:** Technical adjustment to disclosure ITS, relevant primarily for larger institutions subject to EBA centralised disclosure requirements.



Basel Committee finalises technical amendment to the standardised approach for operational risk

Publication date: 23 March 2026

What: The Basel Committee on Banking Supervision (BCBS) published a [document](#) setting out a final technical amendment to the standardised approach for operational risk.

Key points:

- The amendment clarifies the treatment of rental income from investment properties under the business indicator, a key input used to calculate operational risk capital requirements.

It follows a public [consultation](#) launched in June 2025, during which the Basel Committee sought feedback on the proposed clarification.

- The revised standard has now been finalised and will apply from 1 April 2029. The changes are reflected in the consolidated Basel Framework, specifically in the section on Operational Risk (OPE) governing the calculation of risk-weighted assets.
 - In addition, the Basel Committee has finalised a response to an FAQ on market risk, together with consequential amendments to related FAQs. These updates have also been incorporated into the Basel Framework and are set out for information in the annex to the published document.
- **Low impact:** Technical clarification to operational risk calculations, with limited impact in the short term but relevant for longer-term Basel III implementation and capital planning.

Securities & Markets

ESMA Risk Monitoring Report flags elevated risk Environment

Publication date: 11 March 2026

What: ESMA published its first [Risk Monitoring Report of 2026](#), identifying elevated market, systemic and operational risks in EU financial markets. Despite resilient market performance in the second half of 2025, ESMA concludes that overall risk levels remain high, with increased sensitivity to geopolitical and macroeconomic shocks.

Key points:

Overall risk assessment

The likelihood of sudden and significant market price swings remains elevated, driven by geopolitical tensions, stretched equity valuations and an uncertain EU economic outlook. Rising cross-asset price correlations increase contagion risks, while cyber and hybrid threats continue to grow in scale and sophistication, heightening operational risk. Although the assessment predates the escalation of the Middle East conflict, early market reactions validate the transmission channels identified by ESMA.

Market developments

Securities markets and crypto-assets

- Global equity valuations reached record highs in late 2025 and early 2026, increasing the risk of disorderly corrections.
- European sovereign bond spreads versus Germany narrowed, but liquidity weakened slightly amid macroeconomic uncertainty.
- Credit-quality indicators remained mixed, with heightened concerns around US private credit.
- Crypto markets experienced an extended sell-off following the October flash crash, while stablecoins continued to grow, albeit more slowly.

Infrastructures and services

- Financial firms and market infrastructures face increasing exposure to cyber and hybrid threats, as well as vulnerabilities stemming from operational dependencies.
- Central Securities Depositories (CSDs) saw a surge in settlement fails, notably for ETFs in April and for UCITS and equities in late summer 2025.

Asset management

- Equity funds delivered strong performance, largely driven by valuation effects and increased exposure to US markets.
- The expansion of private finance funds supports real-economy funding but raises opacity concerns, warranting closer monitoring.

Consumers and retail markets

- Continued shifts from active to passive strategies sustained strong ETF inflows.
- ESMA highlighted bubble risks linked to social-media-driven investment behaviour, particularly among younger investors.
- Leveraged retail products continued to generate negative returns for many retail investors.

Structural developments

Market-based finance

- Equity issuance remained weak as IPO activity continued to decline, with limited support from secondary offerings.
- ESMA found no clear evidence of increasing delistings but confirmed a persistent downward trend in EU IPOs.

Sustainable finance

- ESG investment flows slowed amid a less supportive global climate policy backdrop, even as transparency improved.
- In contrast, investor focus increasingly shifted toward physical climate risk management, contributing to record catastrophe bond issuance in 2025 and greater EU fund exposure to these instruments.

Securities & Markets (continued)

❑ Financial innovation

Tokenisation adoption remained limited, but momentum increased, particularly for tokenised money market funds.

Interest in quantum computing applications rose, though use cases remain experimental and distant from commercial deployment.

● **Medium–high impact:** Reinforces supervisory priorities around geopolitical risk transmission, market resilience, operational risk, and investor protection, with potential implications for risk management, disclosure practices and supervisory scrutiny in 2026.

📄 **ESMA outlines actions to simplify the retail investor journey**

Publication date: 12 March 2026

What: ESMA published its takeaways from the [2025 Call for Evidence \(CfE\) on the retail investor journey](#), setting out planned actions to simplify requirements, reduce complexity and improve accessibility for retail investors across the EU.

Key points:

❑ **Regulatory focus areas**

Based on stakeholder feedback, ESMA will prioritise action in three areas:

- Streamlining disclosures to address information overload and improve clarity for investors.
- Reducing complexity in suitability and appropriateness assessments, particularly for simpler products and digital distribution models.
- Simplifying MiFID II requirements on sustainability preferences, which stakeholders view as overly complex.

Disclosures

- Stakeholders considered existing disclosures too long, complex and poorly adapted to digital channels.
- Strong support for clearer, layered and mobile-friendly disclosures, while maintaining appropriate levels of investor protection.

• ESMA will use consumer testing to inform and validate improvements to disclosures and digital investor journeys, including mobile-first solutions.

❑ **Suitability and appropriateness**

• While recognised as essential for investor protection, these assessments are viewed as burdensome and disproportionate in certain cases.

• Stakeholders called for greater proportionality, notably for simple products and digital channels, and simplification of sustainability preference integration.

Beyond regulation

• Responses highlighted non-regulatory barriers to retail participation, including lack of trust, high costs, limited product comparability, low financial literacy and complex taxation, especially for cross-border investments.

• ESMA noted that there is no single solution to improving retail investor access to EU capital markets.

❑ **Regulatory message**

- ESMA emphasised that enhancing the retail investor journey is a strategic priority, requiring coordinated action with market participants, the European Commission, co-legislators and national authorities to reduce burdens while maintaining strong investor protection.

Next steps:

- The findings will inform ESMA's future technical advice on MiFID II delegated acts.
- Potential updates to ESMA guidelines will be aligned with the final outcome of the Retail Investment Strategy (RIS).

● **Medium impact:** Signals upcoming simplification and proportionality initiatives under MiFID II, with implications for disclosures, product governance, digital onboarding and sustainability preference assessments.

Sustainability

EU Commission seeks feedback on revision of EU taxonomy criteria for sustainable activities

Publication date: 17 March 2026

What: The European Commission launched a public consultation on possible revisions to the technical screening criteria of the [EU Taxonomy](#), with the aim of making the framework simpler, clearer and easier to use.


Key points:

- The review focuses on streamlining and clarifying the criteria that determine whether economic activities qualify as environmentally sustainable under the [EU Taxonomy Regulation](#). The draft revisions seek to reduce complexity, improve alignment with updated EU legislation and better reflect technological developments.
- The proposed changes cover most activities under the Climate and Environmental Delegated Acts, including forestry, manufacturing, energy, transport and construction, as well as the generic “Do No Significant Harm” (DNSH) criteria.
- The initiative builds on [the Commission’s Omnibus I package](#) adopted in February 2025, which mainly addressed taxonomy disclosures. Following that package, the Commission carried out a broader review of all technical screening criteria throughout 2025.
- The proposals are set out in:
 - ❖ [a draft Delegated Regulation amending Delegated Regulation \(EU\) 2021/2139](#) (Climate Delegated Act), and
 - ❖ [a draft Delegated Regulation amending Delegated Regulation \(EU\) 2023/2486](#) (Environmental Delegated Act).

Next steps:

The feedback period is open until 14 April 2026. Input received will inform a formal proposal for revised criteria, which the

Commission plans to adopt by summer 2026.

 **Medium impact:** May significantly affect taxonomy alignment assessments, sustainable finance disclosures and access to green finance across a wide range of economic sectors.



CySEC informs CIFs of ESMA Common Supervisory Action on MiFID II conflicts of interest

Publication date: 5 March 2026

What: The Cyprus Securities and Exchange Commission (CySEC) issued [Circular C758](#) informing Cyprus Investment Firms (CIFs) that the European Securities and Markets Authority (ESMA) launched a Common Supervisory Action for 2026 (CSA 2026), to be carried out jointly with national competent authorities, focusing on MiFID II conflicts of interest requirements in the distribution of financial instruments to retail clients.

Key points:

Scope and objectives of CSA 2026

The CSA aims to assess how investment firms identify, prevent and manage conflicts of interest when offering investment products to retail investors. The supervisory focus will include:

- the impact of staff remuneration and inducements on product distribution,
- the role of digital platforms in steering investors towards specific products and whether this aligns with clients' best interests, and
- the management of potential conflicts between firms' commercial interests and the needs of retail clients.

Supervisory actions in Cyprus

As part of CSA 2026, CySEC plans to conduct on-site inspections and/or desk-based reviews of a sample of CIFs providing investment services to retail

clients.


The objective is to assess compliance with MiFID II conflicts of interest obligations, ensure consistent application of EU rules and enhance investor protection.

Applicable regulatory framework

For the purposes of the CSA, CySEC will assess compliance against, inter alia:

- Articles 10, 17, 24 and 25 of Law 87(I)/2017,
- Articles 22, 23, 24, 27, 33, 34 and 35 of Commission Delegated Regulation (EU) 2017/565,
- Articles 11(3) and 13 of CySEC Directive DI87-01, and
- ESMA Guidelines on MiFID II remuneration requirements.

CySEC expects CIFs to adhere to the content of the Circular, which will form part of its supervisory review under CSA 2026.

 **Medium impact:** Increased supervisory scrutiny of conflicts of interest, remuneration practices and digital distribution tools, with practical implications for governance, compliance frameworks and retail investor protection.



CySEC Circulars (continued)

CySEC Circular on the FATF Targeted Report on stablecoins and unhosted wallets

Publication date: 18 March 2026

What: CySEC issued [Circular C762](#), drawing the attention of regulated entities to the FATF Targeted Report on stablecoins and unhosted wallets and its findings (see *AML section of this newsletter for further details*).

Key points:

- ❖ CySEC emphasises that regulated entities are expected, in line with [FATF's 2021 Updated Guidance on a Risk-Based Approach to VASPs](#), to identify, assess and mitigate risks associated with stablecoins and unhosted wallets.
- ❖ CySEC highlights vulnerabilities arising from P2P transfers without regulated intermediaries and from cross-chain activity that may fall outside existing controls. The Circular also references the EU Transfer of Funds Regulation (EU) 2023/1113 and FATF guidance on Travel Rule supervision, noting their relevance

for stablecoin issuers and other obliged entities.

- ❖ CySEC urges regulated entities to:
 - enhance their understanding of ML/TF risks linked to stablecoins and unhosted wallets; and
 - strengthen their risk-based AML/CFT frameworks, taking due account of the FATF report and emerging typologies.
- **Medium impact:** Reinforces supervisory expectations for VASPs and other regulated entities, with particular relevance for governance, transaction monitoring, cross-chain risk management and Travel Rule compliance.



Glossary

AIF Alternative Investment Fund (EU)

AIFMD Directive 2011/61/EU on Alternative Investment Fund Managers

AIFMs Alternative Investment Fund Managers

AML/CFT Anti-Money Laundering/Countering the Financing of Terrorism

CRD Capital Requirements Directive

CSRD Corporate Sustainability Reporting Directive

CySEC Cyprus Securities and Exchange Commission

EBA European Banking Authority

ECB European Central Bank

EIOPA European Insurance & Occupational Pensions Authority

EFAMA European Fund and Asset Management Association

ESG environmental, social, and governance

EMIR European Market Infrastructure Regulation

ESAs European Supervisory Authorities (EBA, EIOPA and ESMA)

ESMA European Securities and Markets Authority

ESRB European Systemic Risk Board EU European Union

FATF Financial Action Task Force

ICT Information and Communication Technology

INTERPOL International Criminal Police Organisation

IOSCO International Organisation of Securities Commissions

MiCA Regulation of the European Parliament and of the Council on markets in crypto-assets

MiFID Markets in Financial Instruments Directive

NCA National Competent Authority

OECD Organisation for Economic Co-operation and Development

OJ Official Journal

RTS Regulatory Technical Standards

SFDR Sustainable Finance Disclosure Directive

UNODC United Nations Office on Drugs and Crime

UCITS Directive directive 2009/65/EC on Undertakings for Collective investments in Transferable Securities

UCITS Undertakings for Collective investments in Transferable Securities (EU)

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