Grant Thornton

Financial Services Regulation Outlook

2024 - 2025

Section	Page
Introduction	03
How can we help you?	03
New Prudential Developments	04
Operational Resilience	06
Digitalisation and use of AI in Finance	09
Impact on Investors	11
Environment, Social and Governance (ESG)	12
Financial Crime	18
Data Protection – Further Legislation and Regulations Concerning the DPO	21
International Insurance Prudential Regulations	22

Introduction

The dynamic interplay of regulations within the European Union (EU) significantly shape the direction and stability of the financial industry and significantly influences how firms, banks and insurance companies operate within the EU. However, economic uncertainty is a constant companion in the financial world; it is a focal point for businesses, policymakers, and investors alike. From shifting geopolitical factors to emerging technologies, businesses and policymakers in the EU strive to chart through these uncertain waters, understanding the complexities of the economic landscape while trying to implement changes.

As Regulators aim to enhance stability and protect consumers, this affect businesses, influencing their operations, compliance challenges, strategies and overall environment. Hence, It is vital for business to stay on top of the EU Regulatory expectations in order to spur growth ensure compliance. This Article delves into the evolving EU regulatory landscape, exploring the key uncertainties that are poised to influence decision-making processes, market dynamics, and strategic planning throughout the year.

How can we help you?

Navigating the intricate landscape of EU regulations requires a nuanced understanding of ever evolving legal framework, staying on top of regulatory updates, fostering collaboration with regulatory bodies, and leveraging technological advancements.

At Grant Thornton, we offer best in class advisory and assurance services to support your business to adopt the dynamism of EU regulations and ensure adaptability with a proactive approach. Subject matter experts at the forefront of their field deliver our services. We will work with you to ensure the required implementation complements you overall business strategy and ensures compliance.

New Prudential Developments

CRRIII/CRDVI Banking Package

The long-awaited plan to implement the last elements of the Basel III accord in the EU is seeing completion as the European Commission (EC) published its proposals for an amended Capital Requirements Regulation (CRR III) and an amended Capital Requirements Directive (CRD VI), collectively referred as the "banking package".

These new regulations center around enhancing resilience and capital required by banks in relation to their credit, operational, and market risks. In a nutshell, the changes include, among others:

- Credit Risk: Changes in the risk weights for the standardized approach for credit risk and prohibition of use of the Advanced IRB approach for certain counterparties such as institutions and large corporates.
- Market Risk (Fundamental Review of the Trading Book or FRTB): Introduction of a more risk-sensitive standardized approach (referred to as the sensitivities-based method) and changes in the application of the internal model approach, shifting towards the Expected Shortfall (ES) measure to replace current Value-at-Risk approaches.
- CVA Risk: Replacement of current approaches with two new approaches: Basic Approach (BA-CVA) and Standardised Approach (SA-CVA), with the latter approach aligned to the FRTB approach.
- Operational Risk: Withdrawal of the internal model approach and the use of a single standardized measurement approach.
- Leverage Ratio: A revised exposure definition and the introduction of a leverage ratio buffer for global systemically important financial institutions.
- Output Floor: Application of limits for institutions using internal modelling approaches for determining RWA, with phased implementation starting at 50% in 2025 until 2030, at which the floor will be set at 72.5%.
- Other Areas: Introduction of new harmonised definitions of different types of ESG risks, requiring institutions to report their exposure to these risks. Disclosure requirements have also been enhanced.

As EU continues to adapt the banking package, finding a balance between financial stability and supporting economic growth remains a key challenge for both regulators and financial institutions. The EU is targeting to swiftly finalise the legal texts, with the view for full effectivity by 1 January 2025.

EBA Stress Testing

On 8 December 2021, the Board of Supervisors of the European Banking Authority (EBA) decided to carry out its EU-wide stress test in 2023. The primary objective of the EBA stress test is to assess how well banks would withstand severe economic shocks, such as economic downturns, market turbulence, credit losses and increased market discipline. The exercise has been coordinated by the EBA and carried out in cooperation with the European Central Bank (ECB), the European Systemic Risk Board (ESRB), the European Commission (EC) and the Competent Authorities (CAs) from all relevant national jurisdictions.

The EBA published the results of 2023 EU-wide stress test representing 75% of EU banks total assets across 16 EU and EEA countries, which includes 20 banks more than the past under both the favorable, and stress scenarios. It also introduced top-down approach for fees and commissions income and performed a thorough analysis on banks exposures. 2023 EU-wide stress test results can be found **here.**

This exercise is not a pass-fail test but will act as a supervisory tool and will act as an input for the Pillar 2 assessment of banks. This can result in tight scrutiny for banks, as EU-wide stress test gets more stringent.

New Prudential Developments

Liquidity in Resolution

16 June 2023, Single Resolution Board (SRB) published new guidance on liquidity in resolution data for 115 of Europe's largest banks. This guidance focuses on 'Measurement and reporting of the liquidity situation in resolution' principle. The expectation however is to ensure banks develop capabilities by December 31, 2023, demonstrating the ability to measure and report liquidity at short notice and high frequency. The objective of this guidance are (i) expectation that the banks governance, internal framework, and Management Information Systems (MIS) are meeting the data expectations. (ii) Banks develop capabilities to report the requested set of data points on their liquidity situation. (iii) Banks strive to mitigate any deficiencies in their capabilities to provide the said data points as requested by SRB.

Detailed information on the requirements set out by the SRB can be found **here.**

Operational Resilience

Stress Testing for Cyber Resilience

The European Central bank (ECB) will begin its cybersecurity stress test in 2024. The ECB's Supervisory Review and Evaluation Process has identified IT outsourcing and cyber resilience as the focus areas of ECB Banking Supervision. Key objectives of the ECBs stress testing initiative include measuring the resilience of critical financial infrastructures, identifying areas for improvements, and fostering a culture of proactive cybersecurity. Financial institutions are required to demonstrate their ability to maintain essential functions during and after a cyber-incident, minimising the impact on financial stability.

ECB on-site inspections highlighted shortcomings in banks' cybersecurity risk management including failing to identify potential cybersecurity risks, weaknesses in security systems and inadequate crisis management plans. The ECB require that banks take immediate and concrete steps to ensure their institution aligns its practices with supervisory expectations. The 2024 cybersecurity stress test will help further highlight existing problems and enforce supervisory expectations.

Digital Operational Resilience Act ("DORA")

In December 2022, the official Journal of the EU published The Digital Operational Resilience Act ("DORA"). The aim of DORA is to ensure that the European financial services sector can remain resilient throughout periods of severe operational disruption.

DORA establishes clear rules to enhance Information and Communication Technology ("ICT") risk management, incident risk management procedures, testing of digital operational resilience, and the management of ICT third-party risk. The European Supervisory Authorities launched the public consultation on the second batch of policy mandates in January 2024 which include technical standards across;

- Content, timelines and templates on incident reporting;
- Information, strengthen customer authentication.
- Enhance consumer rights: Address temporary fund blocks, improve account statement transparency, and disclose ATM charges.
- Level the playing field: Allow non-bank access to EU payment systems; ensure their rights to a bank account.
- Improve open banking: Remove obstacles, enhance customer control over payment data.
- Enhance cash availability: Allow retailers to provide cash services without purchase requirements, clarify ATM operator rules.
- Further standards on subcontracting of critical or important functions;
- Costs and losses from major incidents; and
- Methodologies around use of threat led penetration testing

Firms should have already begun to focus on completing a scoping exercise followed by a 'controls focused' gap assessment whereby identifying processes and procedures that may pose resilience challenges and understanding the regulatory gaps that need remediation.

The policy measures will be finalised and submitted to the European Commission by 17 July 2024 for adoption. Firms are required to be in full compliance with the regulations by January 2025.

Operational Resilience

Network and Information Systems Directive 2 (NIS2)

The Network and Information Systems Directive 2 (NIS2) represents a significant update to the EU's cybersecurity framework, aiming to bolster the resilience and security of network and information systems across critical sectors. Expanding on its predecessor's scope, NIS2 mandates stricter security measures, enhanced incident response, and broader reporting obligations for a wide range of entities in sectors such as energy, transport, banking, and health.

Key features of the directive include the imposition of more rigorous supervisory and enforcement mechanisms, ensuring entities adopt comprehensive risk management practices and report significant cyber incidents. It also enhances cooperation and information sharing among EU Member States, establishing a more unified and robust approach to cybersecurity.

With the requirement for Member States to transpose NIS2 into national law, organisations will need to assess and potentially upgrade their cybersecurity and resilience strategies to comply with the new directive. This includes significant investments in cybersecurity practices, technology, and personnel training to meet the directive's enhanced standards, underscoring the EU's commitment to safeguarding its digital economy and infrastructure against escalating cyber threats.

Critical Entities Resilience Directive (CER)

The Critical Entities Resilience Directive (CER) is an integral part of the European Union's strategy to enhance the resilience and security of entities that are vital for the maintenance of crucial societal and economic activities. Aimed at strengthening the capacity of critical entities to withstand, respond to, and recover from significant disruptions and threats, CER sets forth a comprehensive framework that encompasses both physical and cyber risks. This directive expands upon previous regulations by broadening the range of sectors considered critical, including energy, transport, banking, digital infrastructure, and health, among others.

CER mandates these entities to implement stringent risk assessment practices, adopt effective security measures, and ensure rapid incident response capabilities. Additionally, it establishes a clear mechanism for national authorities to supervise and enforce compliance, facilitating a coordinated approach to protecting critical infrastructure across the EU. By fostering a culture of resilience, CER aims to minimise the impact of disruptions on public welfare and the internal market, ensuring that critical services remain operational in the face of diverse and evolving threats. This directive represents a key step in the EU's ongoing efforts to safeguard its critical infrastructure and enhance the collective security and resilience of its Member States.

Operational Resilience

The Cybersecurity Act

The Cybersecurity Act is a landmark regulation by the European Union, designed to fortify cybersecurity across the bloc. Enacted to address the growing cyber threats and enhance the overall resilience and trust in digital services, the act establishes a comprehensive legal framework for cybersecurity certification of ICT products, services, and processes. It aims to harmonise cybersecurity standards, procedures, and criteria across member states, thereby ensuring a high level of cybersecurity, privacy, and data protection for users and businesses alike.

Furthermore, the Cybersecurity Act significantly strengthens the role of the European Union Agency for Cybersecurity (ENISA), granting it a permanent mandate to support member states in tackling cybersecurity threats and attacks. ENISA is tasked with facilitating the implementation of the certification framework, enhancing the capabilities of national cybersecurity authorities, and fostering EU-wide cooperation. Through these measures, the Cybersecurity Act seeks to create a safer digital environment, boost digital market integrity, and protect the European digital economy against increasingly sophisticated cyber-attacks. This pivotal piece of legislation marks a critical step forward in the EU's commitment to securing its cyberspace, critical infrastructure, and digital single market.

Digitalisation and use of AI in Finance

Payment Services Directive (PSD3) Implementation

At the back of recent advancement in payment technology and rise in fraudulent activity, The European commission proposed a modern legislative framework intending to replace PSD2 to PSD3. PSD3 is set to focus on authorisation and supervision of payment services providers while Payment Services Regulation (PSR) will monitor other areas.

The main objectives of proposal under PSD3 along with PSR include:

- Combat payment fraud: Share fraud-related
- Information, strengthen customer authentication.
- Enhance consumer rights: Address temporary fund blocks, improve account statement transparency, and disclose ATM charges.
- Level the playing field: Allow non-bank access to EU payment systems; ensure their rights to a bank account.
- Improve open banking: Remove obstacles, enhance customer control over payment data.
- Enhance cash availability: Allow retailers to provide cash services without purchase requirements, clarify ATM operator rules.
- Strengthen harmonisation: Enact payment rules in a directly applicable regulation, reinforce implementation and penalty provisions.

European Union Artificial Intelligence Act (AI Act)

The European Commission is set to introduced the **Artificial Intelligence (AI) Act**, The use of AI in the EU will be regulated by AI Act which is set to position the EU as a leading regulator of AI. The Act will classify AI systems based on their potential risk, banning those posing 'unacceptable risk'. 'High Risk' AI which negatively affect safety or fundamental rights will be assessed prior to launching on the market and periodically thereafter. Fines for breaches will be relative to annual turnover and can reach up to €35 million. Provisional agreement has been reached between Council and the Parliament on December 9, 2023 for the most comprehensive and significant piece of AI legislation to date worldwide.

Currently undergoing the Ordinary Legislative Procedure the Act will likely come in to force in early next year, requiring no transposing legislation for member states.

Digitalisation and use of AI in Finance

Markets in Crypto-Assets Regulations (MiCAR)

The MiCAR has introduced a new regulatory framework for Crypto-Assets in Europe. MiCAR imposes a broad set of requirements to issuers of crypto-assets and providers of crypto-asset services, it also grants regulatory authority to supervisory bodies to maintain financial stability. Other objectives include the safeguarding of consumers and investors, along with improving the EU's competitiveness and innovation in this sector. Breaching these regulations can lead to administrative sanctions being placed on a company. The Central Bank of Ireland requests companies that are impacted by this new legislation to contact them immediately to discuss their next steps.

MiCAR is set to bring issuers of certain types of crypto-assets into the framework. New guidelines in store for 'stablecoins' including Asset-Reference Tokens (ARTs), E-Money Tokens (EMTs) and utility tokens.

The full MiCAR rights and protection will not apply to the provision of crypto-asset services until December 2024.

Impact on Investors

European Retail Investment Strategy (RIS)

May 24, 2023, European commission established a revised framework through **RIS** as a part of its Capital markets Union initiative. The objective behind the proposal is to revise the current investor protection rules across sector, including The Markets in Financial Instruments Directive (MiFID II), the Insurance Distribution Directive (IDD), the Undertaking for Collective Investment in Transferable Securities (UCITS) Directive, the Alternative Investment Fund Managers Directive (AIFMD) and Insurance and Reinsurance Directive (Solvency II), as well the Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation.

This provision is looking to address key retail investor issues by enhancing disclosure requirements, modernise and streamline the framework that ensures consumers are treated fairly and are duly protected. This also leads to increased trust by the retail investors in capital markets. A final agreement on the proposal may not be achieved until 2025 due to European Parliament elections next year.

Environment, Social and Governance (ESG)

Corporate Sustainability Reporting Directive (CSRD)

The CSRD significantly expands the sustainability reporting requirements for companies operating within the European Union. It mandates the disclosure of detailed information on how company operations affect environmental, social and governance factors, and how sustainability risks impact their business.

Companies subject to the CSRD will have to report according to European Sustainability Reporting Standards (ESRS). The ESRS were published in the Official Journal on 22 December 2023.

Under the CSRD, disclosures will have to be made in the annual management report of the undertaking alongside their financial statements and for the same reporting periods.

The CSRD will be effective from January 1, 2024 for entities already subject to NFRD. The Directive applies to all EU listed companies and large companies which exceed 2/3 of the following criteria:

Number of EU - based staff	**>**	**250;**
Asset Value	**>**	**€20m**
Revenue	**>**	**€40m**

This means that the first reports under CSRD will be published in 2025. Following that, the requirements will gradually extend to other companies, broadening the scope of firms required to comply with detailed sustainability reporting standards. On 5 February 2024, the European Financial Reporting Advisory Group (EFRAG) released the first set of technical explanations provided to assist stakeholders in the implementation of the **ESRS.**

New Screening Criteria for the EU Taxonomy's Environmental Objectives

The new and amended technical screening criteria (TSCs) in relation to the environmental objectives in the EU Taxonomy Regulation, which were published in the Official Journal on 21 November 2023 and will apply from January 2024, are directed towards entities and activities within the European Union that fall under the scope of the Taxonomy Regulation.

The final **Environmental Delegated act** defines the technical screening criteria of the four other environmental objectives of the Taxonomy Regulation, namely:

- Sustainable use and protection of water and marine resources;
- Transition to a circular economy;
- Pollution prevention and control, and;
- Protection and restoration of biodiversity and ecosystems.

The Environmental Delegated Act also includes changes to the Disclosures Delegated Act, including the content of the mandatory reporting templates.

The amendments to the Climate Delegated Act, cover the climate-related environmental objectives of climate change mitigation and climate change adaptation including modifications and new activities.

Environment, Social and Governance (ESG)

Sustainable Finance Disclosure Regulation (SFDR)

The Sustainable Finance Disclosure Regulation (SFDR) was introduced by the European Commission alongside the Taxonomy Regulation and the Low Carbon Benchmarks Regulation as part of a package of legislative measures arising from the European Commission's Action Plan on Sustainable Finance.

The European Commission is currently carrying out a comprehensive assessment of the framework, looking at issues such as legal certainty, usability and how the regulation can play its part in tackling greenwashing.

To further refine the regulation and ensure it meets its objectives, the Commission initiated two key consultations, a public consultation and a targeted one. The primary goal of these consultations is to ensure that the SFDR can effectively contribute to the broader EU agenda of sustainable finance by providing a robust framework that enhances investor confidence and supports the transition to a sustainable economy.

In November 2023, the European Parliament Committee on Economic and Monetary Affairs (ECON) coordinators decided to hold a scrutiny session on reviewing the delegated **act**. Shortly after, the ESA published the final draft on Regulatory Technical Standards (RTS) and submitted it to the Commission on 4 December 2023. The Commission has three months following the delivery date to decide whether to endorse the draft on RTS as proposed, or to adopt it with modifications

EBA guidelines on the management of ESG risks

The European Banking Authority (EBA) launched a public consultation on 18 January which will run until April 2024 on '**Draft Guidelines** on the Management of (ESG) Risks'.

The draft Guidelines set out requirements for institutions for the identification, measurement, management and monitoring of ESG risks, including through plans aimed at addressing the risks arising from the transition towards an EU climate-neutral economy. The guidelines contain requirements as to the internal processes and ESG risk management arrangements that institutions should have in place, including specific plans to address the risks arising from the transition and process of adjustment to relevant sustainability legal and regulatory objectives.

Notably, the EBA guidelines will likely require that institutions develop Capital Requirements Directive CRD-based prudential (transition) plans to address the risks arising from the transition and process of adjustment towards the regulatory objectives related to ESG factors of the jurisdictions they operate in. Institutions will be called upon to assess and embed forward-looking ESG risk considerations in their strategies, policies and risk management processes through transition planning considering short, medium and long-term time horizons.

As reflected in the CRD provisions and in line with the sequenced approach adopted under other EBA regulatory products on ESG risks such as the Implementing Technical Standards on Pillar 3 disclosures the new rules are set to apply from January 2025. The guidelines emphasise environmental risks while still containing some minimum requirements on the remaining categories of ESG risks.

Environment, Social and Governance (ESG)

EBA report and Role of Environmental and Social Risks in Prudential Framework

The EBA published a **report** in October 2023 on the role of environmental and social risks in the prudential framework of credit institutions and investment firms. Taking a risk-based approach, the report assesses how the current prudential framework captures environmental and social risks.

This report explores the appropriateness and feasibility of possible clarifications and targeted enhancements to the prudential framework to better reflect the importance of environmental and social risk drivers for each of its elements. This builds on previous EBA publications in relation to sustainable finance and forms part of the EBA's broader work on the topic as outlined in its Roadmap on Sustainable Finance.

Key proposals include:

- Encouraging the inclusion of environmental and social factors as part of the due diligence for valuation of immovable property collateral;
- Identify whether environmental and social factors constitute triggers of operational risk losses, and;
- Development of environment-related concentration risk metrics for supervisory reporting.

ECB Report on Risks from Misalignment of Banks' Financing with the EU Climate Objectives

On January 2024, the ECB published a **report** on the "Risks from misalignment of banks' financing with the EU climate objectives", where they have quantified the most pronounced transition risks in the credit portfolio of the banking sector. Analysis of 95 banks covering 75% of euro area loans shows that currently banks' credit portfolios are substantially misaligned with the goals of the Paris Agreement, leading to elevated transition risks for roughly 90% of these banks. The Central Bank has stated that misalignment with the EU climate transition pathway can lead to material financial, legal, and reputational risks for banks. It is therefore crucial for banks to identify, measure and – most importantly – manage transition risks, just as they do for any other material risk. The ECB articulates that while it is not up to the supervisors to tell banks who they should or should not lend to, they will continue to insist that banks actively manage the risks as the economy decarbonises. Banks cannot do this without being able to accurately identify transition risks and how they evolve over time.

Additionally, it is noted that ECB Banking Supervision will continue to play a role in spurring banks to manage the inevitable risks materialising from the transition, just as they would for any other risk.

Environment, Social and Governance (ESG)

The ECB's Strategic Focus on Climate-related and Environmental Risks

The ECB has set institution-specific **deadlines** for achieving full alignment with its expectations by the end of 2024. While there can be exceptions in individual cases, the ECB has communicated its expectation to banks to reach, as a minimum, the following milestones.

- In a first step, the ECB expects banks to adequately categorise climate and environmental risks and to conduct a full assessment of their impact on the banks' activities by March 2023 at the latest.
- In a second step, and at the latest by the end of 2023, the ECB expects banks to include climate and environmental risks in their governance, strategy and risk management. Some banks have already started to plan for the transition to a low-carbon economy and to engage with their clients. However, a wait-and-see approach still prevails in most banks. For example, banks do not set interim targets or limits to their risk-taking with a view to fulfilling their long-term strategic commitments, or set them in such a way that the immediate impact on the bank's business is negligible.
- In a final step, by the end of 2024 banks are expected to meet all remaining supervisory expectations on climate and environmental risks outlined in 2020, including full integration in the Internal Capital Adequacy Assessment Process (ICAAP) and stress testing.

Corporate Sustainability Due Diligence Directive (CS3D)

This **Directive** aims to foster sustainable and responsible corporate behaviour and to anchor human rights and environmental considerations in companies' operations and corporate governance. The new rules will ensure that businesses address the adverse impacts of their actions, including in their value chains inside and outside Europe.

Lawmakers in the European Parliament voted on 1 June 2023 to provisionally approve the CS3D as a regulatory mandate. The Directive is expected to be approved by the European Union in March/April 2024.

This means companies in Groups 1 & 2 (EU-based with over 500+ employees and €150 million+ annual revenue) should start planning and preparing to implement their CS3D compliance approach by 2026 in order to be ready for the 2027 CS3D reporting cycle to stay compliant.

Although there will be no immediate impact in 2024, firms are expected to monitor the progress of CS3D. Sanctions and liabilities can include "naming and shaming", or fines of at least 5% of net global turnover.

Environment, Social and Governance (ESG)

The European Green Bond Standard (EuGB)

The Council of the European Union adopted a new regulation creating a new European Green Bond Standard, marking the last major step for the establishment of a new European Green Bonds (EuGB) label, aimed at fighting greenwashing and helping advance the sustainable finance market in the EU. In November 2023, the **regulation** (EU) 2023/2631 was published in the Official Journal of the EU.

In addition to setting out the requirements for issuers wishing to use the EuGB designation, the new regulation also includes voluntary disclosure guidelines for other environmentally sustainable bonds and sustainability-linked bonds issued in the EU.

Issuers must fulfil the requirements of the EU Green Bond Regulation in order to use the designation "EU Green Bonds" or EuGB. An EU Green Bond can be either a listed or unlisted bond. In addition, a centralised registration system supervised by the European Securities and Markets Authority (ESMA) and a supervisory framework for external reviewers will be introduced. The regulation also provides optional disclosure templates for bonds marketed as environmentally sustainable and for sustainability-linked bonds. Member states shall take necessary measures to comply by December 2024.

The New Directive on Empowering Consumers for the Green Transition (ECGT)

On 17 January 2024, the European Parliament gave its final green light to the proposal for a Directive on Empowering Consumers for the Green Transition through better protection against unfair practices and better information. The Directive aims to ban greenwashing and misleading product information, in line with EU's objective regarding a circular, green, and clean economy, by enabling consumers to make informed purchasing decisions and therefore contribute to more sustainable consumption.

The new law aims to restrain a series of unfair company tactics that prevent consumers from making sustainable choices. The text, agreed upon in negotiations among EU institutions and member states, is now ready to be transposed into national legislation across the EU. Once enforced, the Directive will ban a series of greenwashing tactics, including climate-neutral claims, which are among the most misleading green claims on the market.

Environment, Social and Governance (ESG)

Proposal for ESG Rating Providers to be Regulated under ESMA

On 6 February 2024, the EU Council and European Parliament agreed on a **proposal** to regulate ESG ratings to increase transparency for investors. The new agreement comes as pressure mounts on the EU to regulate rating providers, noting the lack of transparency within the rating sector, which poses a serious risk to investors.

The proposed regulation would require that ESG rating providers to be approved and overseen by ESMA, introducing requirements to increase transparency around rating methodologies and sources of information utilised by rating providers as part of the rating process.

The key change introduced is that rating providers established in the EU will be required to obtain an authorisation from ESMA, and providers established outside the EU will be required to obtain endorsement from an EU-authorised provider, recognised based on quantitative criteria or subject to an equivalence decision based on dialogue between the respective provider's home state and ESMA.

Financial Crime

AML Trends

As we step into 2024, we expect a year of substantial shifts in the financial crime, risk and regulatory landscape. This year is already set to witness significant changes as regulatory bodies worldwide seek to adapt to the rapid evolution of technology and its impact to both bolster and hamper efforts in combating financial crime. This year may also see a reshaping of the global political landscape, the results of which may have untold effects on the ongoing cooperation between nations to unify their regulatory efforts. Amidst these challenges, we have anticipated the following trends expected to arise over the course of 2024.

Cryptocurrencies & Digital Assets

As the world steers to an ever more cashless society, the surge in adoption of contactless payments, digital wallets and digital currencies will continue to grow. It's anticipated that by 2027, transactions associated with contactless payments will amount to over $10 trillion. While these new payment methods may improve the overall customer experience, they give rise to new and intricate challenges where organisations must now rethink how they combat financial crime in this rapidly changing environment.

In October 2023, the G20 adopted a Roadmap on Crypto Assets following calls to regulate and supervise them effectively and to manage the associated money laundering risks. The Policy Implementation Roadmap is included in the International Monetary Fund (IMF) and the Financial Stability Board (FSB) Synthesis Paper, which sets out policies for crypto assets. The G20 Roadmap contains 4 mains actions (i) The implementation of policy frameworks (ii) Outreach beyond G20 jurisdictions, (iii) Global coordination & (iv) Addressing data gaps, and is expected to fully be implemented by the end of 2025, however, some elements of the roadmap are anticipated to be implemented within the next 8-12 months.

Financial Crime

Politically Exposed Persons (PEPs)

This year, 2024, the global political landscape is set to be reshaped, with over 40 different countries set to hold elections. Three of the world's largest economies, the United States, the United Kingdom and India are among those that are set to hold national elections to determine their countries future leadership.

With potentially thousands of new PEPs expected by the end of 2024, this creates a significant challenge for financial compliance teams who need to ensure that they are prepared and have a clearly defined view of their risk tolerances for new and existing PEP relationships.

Sanctions

The last two years have seen a step change in the volume, complexity and pace of change in respect of financial and other sanctions. The Russia / Ukraine crisis prompted an unprecedented series of new and novel sanctions being issued against a wide range of targets, by a multitude of sanctions authorities around the world, including the EU.

In 2024, we expect that complying with these sanctions regimes will continue to be a challenge, and that new regulatory guidance (for example the **draft guidance issued by the EBA**) will be issued to codify the expectations of regulators. We may also begin to see regulatory actions in respect of failures to comply with the Russia / Ukraine sanctions begin to be issued, again providing further insights into the appetite and expectations of regulators globally.

Artificial Intelligence (AI)

As the use of AI continues to grow, it is important for organisations to be aware of its potential for both facilitating and fighting against financial crime.

AI is being used by criminals to carry out a host of illegal and nefarious activities such as generating deep fakes for perpetrating fraud, and carrying out attacks against individuals and corporations. It is also being used to the benefit of organisations by way of improving customer onboarding, aiding adverse media and sanctions screening by reducing false positives, improving transaction monitoring, enriching customer data and also identifying new risks. One key challenge for firms using AI in their control framework is the extent to which the AI and its outputs are 'explainable'; i.e. having a clear answer on how and why an AI model generates decisions to provide to senior management, auditors, regulators and others.

Regulatory authorities are collaborating with creators of AI models to ensure that there is a transparent and comprehensible understanding of the capabilities and limitations in their decision-making processes.

Financial Crime

Regulatory Change

There is major regulatory change due to occur in 2024 with the establishment of the EU's new Anti-Money Laundering Authority (AMLA) together with enhanced AML regulations. While the home of the new authority is yet to be decided upon, the EU Council and Parliament have in January 2024 come to a provisional agreement on elements of the new regulation, which include rules on:

- Expanding the list of obliged entities to now cover private aircraft and luxury automobile sellers, and almost all types of crypto platforms.
- Professional football clubs will be subject to AML rules from 2029.
- Introduction of EDD measures for cross-border correspondent relationships for cryptocurrency platforms.
- FIs to undertake EDD measures on very wealthy ('high net worth') individuals engaged in large transactions.
- A maximum limit of €10,000 on cash payments, with obliged entities required to identify and verify the identity of a person carrying out an "occasional transaction" in cash between €3,000 and €10,000

Texts will now be finalised and presented to the member states and European Parliament for approval.

Data Protection – Further Legislation and Regulations Concerning the DPO

Appropriately Resourcing the Data Protection Officer (DPO)

On the back of the European Data Protection Board's recent report and guidance "2023 Coordinated Enforcement Action; Designation and Position of Data Protection Officers; Adopted on 16 January 2024", GDPR Statutory authorities across Europe are to pay heightened attention to ensure DPOs are properly resourced, trained, and empowered to effectively fulfill their mandate. Areas for specific attention include risk assessments (Data Protection Impact Assessments, Transfer Impact Assessments including appropriate data processing agreements), retention enactment and third-party monitoring. Ensure the DPO is appropriately resourced is also essential considering the related data acts and regulations such as:

Related Data Legislation – AI Act

For DPO's significant overlap between the GDPR and the EU Artificial Intelligence Act have led regulators in Ireland to suggest internal oversight of AI will rest with the DPO. AI Risk needs to be high on the DPO's priority list.

Related Data Legislation – Data Act and Financial Data Access Regulation

Specifically impacting financial services, the Data Act (11 January 2024: Data Act entered into force and due to apply in September 2025) with its effective financial services arm, the Financial Data Access Regulation (FIDA) eventually following, will entitle customers to greater levels of data access. Where the Data Act "establishes clear and fair data access and rules for accessing and using data within the European data economy", FIDA will concentrate on financial services and the use of and access to customer data in products such as pensions, loans, mortgages, savings, investments, and related products.

New DPC commissioners

In 2024 the DPC will create three new data protection commissioners replacing the incumbent data commissioner, Helen Dixon. How these positions are resourced, coupled with a potential change of operating model for the DPC may well dictate an amended approach to the regulation of personal data in Ireland.

International Insurance Prudential Regulations

Global Insurance Capital Standards

Over the past decade, the International Association of Insurance Supervisors (IAIS) have been working to build The Insurance Capital standards (ICS), a new global standard for Internationally Active Insurance Groups (IAIGs). Consultation on the ICS as a prescribed capital requirement (PCR) closed on 21 September 2023. The consultation sets out the updated candidate ICS, which incorporate policy changes made to ICS version 2.0. These include changes to the three components of the ICS (valuation, capital requirements and capital resources), which were informed by inputs from various stakeholder engagement efforts during the monitoring period. The ICS will be implemented as a group-wide prescribed capital requirement at the end of 2024.

Although the ultimate aim is to establish a single ICS that includes a common methodology across jurisdiction, some argue that a one-size-fits-all framework could be overly rigid, hindering flexibility for companies to address unique market conditions. Hence, we do not expect ICS to enforce significantly different regulatory requirements given the extensive acceptance of prevailing frameworks such as the Solvency II requirements.

© 2024 Grant Thornton Ireland. All rights reserved. Authorised by Chartered Accountants Ireland (CAI) to carry on investment business.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton Ireland is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. (862)