



# **FINANCIAL REGULATION & SUPERVISION 2023**

A LOOK AHEAD

REGXELERATOR

# FOREWORD

Welcome to Regxelerator's inaugural regulatory outlook report. This report provides a 360-degree perspective through a global and holistic lens on the priorities that will shape the work of financial regulatory authorities during 2023 in the areas of policy, supervision and enforcement as well as in advancing their own organization.

Each section presents a synopsis of the principal themes for the year ahead, focused on the major commonalities across geographies and anchored

in a fact-based analysis of trends and recent developments complete with supplementary deep dives and contextual information. As the economic outlook and market outlook remain highly dynamic and uncertain, the priorities outlined herein may be subject to further amendments as the year progresses.

*Jenny Radziwolek,  
Founder & CEO, Regxelerator*

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# POLICY PRIORITIES

## OVERVIEW

Financial regulatory policy priorities are expected to remain largely consistent with those of the preceding years, with the policy agenda at this point not being materially impacted by the uncertain market environment.

Holistically viewed, global and national policy priority areas for 2023 and beyond can be grouped under the three major themes “Innovation”, “Resilience” and “Sustainable Finance” and are complemented by “Consumer Protection” as an additional horizontal priority theme.

## *Innovation*

Driving forward responsible innovation while addressing the risks that follow from the financial sector transformation will continue to feature as a central theme across advanced and emerging markets in the years to come.

Throughout 2023, the portfolio of innovation-related policy initiatives will continue to be broad with significant attention expected to be directed to the following specific areas:

- Digital assets including both the work on central bank digital currencies and the regulation and oversight of cryptoassets
- Payment system modernization at both the domestic level and in relation to cross-border payments including through the work under the G20 cross-border payments roadmap
- Continued build-out of the innovation-enabling regulatory framework with particular emphasis on the further development of standards for the responsible adoption of artificial intelligence, open banking and finance as well as crowdfunding
- Making consumer protection standards fit for the digital age and addressing the structural harms that result from the digital transformation

Besides policy work at the micro-level, authorities will direct resources to the evaluation of possible financial stability ramifications brought about by the structural changes and innovation of sector with a view to feeding the insights into ongoing policy work.

## *Resilience*

Policy work in relation to resilience will remain heavily concentrated in the area of operational resilience and cyber risk with learnings from the global pandemic and the recent challenges that resulted from Russia's invasion into the Ukraine expected to factor into policy considerations.

As part of the policy work, emphasis on the systemic risk dimension of operational resilience is set to further in addition to considerations on how to future-proof the financial sector's resilience in light of longer-term technological innovations such as quantum computing.

## *Sustainable finance*

Work on sustainable finance will largely follow the direction set out in standard setters' medium-term sustainable finance roadmaps in addition to specific national focus points. Priorities that will continue to attract significant focus in the short-term include the development of standards for ESG rating providers, strengthening of sustainable disclosure frameworks and sustainability-related conduct of business requirements, in part with the goal to address the rising concern over greenwashing.

Across all three themes, the notion of convergence and international harmonization becoming increasingly with global efforts directed to ensuring that standards are consistent and harmonized

The remainder of this section provides additional deep dives into the 2023 policy agenda for specific aspects under these three themes, namely:

- Cryptoasset regulation
- Central bank digital currencies
- Sustainable finance
- Operational resilience

It is important to stress that the policy overview should not be interpreted as exhaustive. The identified themes represent a composite view. In addition, there remains significant momentum in other areas, among other things driven by specific domestic priorities.

## INSIGHT: MODERNIZING POLICY FRAMEWORKS

As the volume of policy has significantly grown over the past decade, this has introduced several challenges and unintended consequences, ranging from undue compliance burden for some financial sector participants to complexity and opacity in navigating the policy landscape. In recognition of these issues, authorities having been increasingly embarking on strategic reviews of their policy frameworks and subsequent modernization initiatives with a view to ensuring that frameworks remain fit-for-purpose. Observed initiatives can be grouped under three main themes:

### Greater simplification & streamlining

Initiatives to simplify and streamline certain regulatory requirements and approval processes or introduce exemptions, e.g. for smaller market participants and/or market participants with an established compliance track record

#### Example

The UK Prudential Regulation Authority is currently consulting on a proposed strong and simple prudential framework, intended to simplify rules for certain banks and building societies that are neither systemically important nor internationally active while preserving their resilience

### Enhanced proportionality

Initiatives aimed at applying and tailoring regulatory requirements and supervisory standards. in a more proportionate manner, i.e. reflective of the differences in specific risk profiles and systemic importance of firms

#### Example

The Basel Committee on Banking Supervision has in 2022 has issued high-level considerations on proportionality with a view to provide practical guidance to supervisory authorities in the application of proportionality in their domestic regulatory and supervisory framework

### Improved access & navigation

Initiatives aimed at making it easier to obtain a central overview of and access applicable regulatory standards including through consolidating standards and/or enhancing the digital infrastructure where they are housed

#### Example

The Australian Prudential Regulation Authority has in 2022 launched an initiatives to modernize its prudential architecture. Initial milestones included consolidating separate standards as well as replacing multiple separate legacy standards through a comprehensive single one.

# POLICY DEEP DIVES

## DEEP DIVE – CRYPTOASSET REGULATION

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The extraordinary market developments in the cryptoassets sector during 2022, characterized the sequence of implosions of multiple dominant market players, which reached its zenith with the fallout of one of the largest global cryptoassets exchanges, FTX, and its leadership team amid severe fraud allegations, left the regulatory community shaken and millions of investors harmed. Confidence in the nascent sector has been fundamentally undermined, with its economic value over and over again being fundamentally called into question, leaving an uncertain prospect for its further developments.

Above all though, the developments made a compelling case for accelerating the agenda for cryptoasset regulation and set the tone for 2023. To that end, we are bound to see significant policy dialogue and action at both global level and national level.

From a global perspective, focus will continue to center heavily on the regulation of stablecoins, decentralized, finance and to some degree non-fungible tokens with significant work being spearheaded by the IOSCO. While the metaverse will likely feature in these conversations, it is not expected that it will become a regulatory focus point

just yet given the significant foundational regulatory work that remains to be addressed. Besides these areas, continued emphasis will remain on the prudential treatment of cryptoassets exposures following the formal adoption of the Basel Committee on Banking Supervision's standards at the end of 2022, with several national authorities having already initiated work to transpose them into local regulations.

At the national level, we will continue to see different focus points given the varying maturity in the adoption of cryptoasset regulation and the prevailing heterogeneity across regulatory frameworks. Those jurisdictions in an advanced stage, are expected to focus their further regulatory development heavily on consumer protection-centric and prudential aspects in response to the lessons learned from 2022. Across the European Union, the forthcoming adoption of the Markets in Cryptoasset Regulation (MiCA) will be a major focus area with the European Supervisory Authorities mandated to lead the technical standards and guidelines development during 2023/24 ahead of the Act coming into force in 2025 as per current timing. Likewise, in the U.S. the pace of regulatory development is likely to pick up in the wake of the FTX scandal.

## CURRENT GLOBAL CRYPTOASSET POLICY & RESEARCH INITIATIVES

### POLICY DEVELOPMENT & RESEARCH STAGE

#### IOSCO

Two active workstreams focusing on (1) market integrity and investor protection concerns related to cryptoassets and (2) on decentralized finance. Two reports complete with policy recommendations to be released by Q4 2023.

#### FINANCIAL STABILITY BOARD

Consultation on the proposed framework for the international regulation of crypto-asset activities and the revised high-level recommendations for the regulation, supervision, and oversight of global stablecoin arrangement closed in December. Final reports expected during 2023.

#### GFIN

Research project underway on evaluation of geographical drivers of crypto-based use cases with a target completion date by May 2023.

#### FATF

Follow-up report on the progress in the implementation of FATF standards on virtual assets and virtual asset service providers including the travel rule expected by June 2023 .

Ongoing review of market trends underway and possible development of additional guidance on the application of standards in relation to decentralized finance and non-fungible tokens

### IMPLEMENTATION STAGE

#### BCBS

Standard on the prudential treatment of banks' exposures to cryptoassets formally endorsed in December 2022. Standard subject to implementation by January 1, 2025.

#### IOSCO-CPMI

Final guidance on the application of the Principles for Financial Market Infrastructures to systemically important stablecoin arrangement issued in July 2022 and expected to be applied.

#### OECD

New global tax transparency framework for the reporting and exchange of information with respect to crypto-assets released in October 2022 with model rules for transposition into domestic legislation.

## TOWARDS AN IMPROVED DATA INFRASTRUCTURE FOR MONITORING CRYPTOASSET MARKETS

Besides the core policy work, the 2022 crypto market crisis has underscored the need for robust and high-integrity data and intelligence to enable improved monitoring and risk assessment including with a view to evaluating potential spill-over effects to traditional financial markets.

To that end, the BIS Innovation Hub Eurosystem Centre has launched work on a new open-source cryptoasset market intelligence that is intended to offer insights into market capitalization and economic activity as well as aid in better assessing financial stability risks.



## CURRENT STATE OF NATIONAL CRYPTOASSET REGULATION

Cryptoasset regulation globally remains at a nascent stage. A recent in-depth study by Regxelerator into the state of cryptocurrency regulation across 110+ countries shows that as of Q4 2022 over 60 countries have brought cryptocurrencies fully or partially under the regulatory umbrella. Despite this progress, insights highlight that there remains significant heterogeneity with respect to the specific regulatory model and terminologies adopted, as well as the scope of regulatory standards covered with critical areas such as prudential and consumer protection frequently underdeveloped.

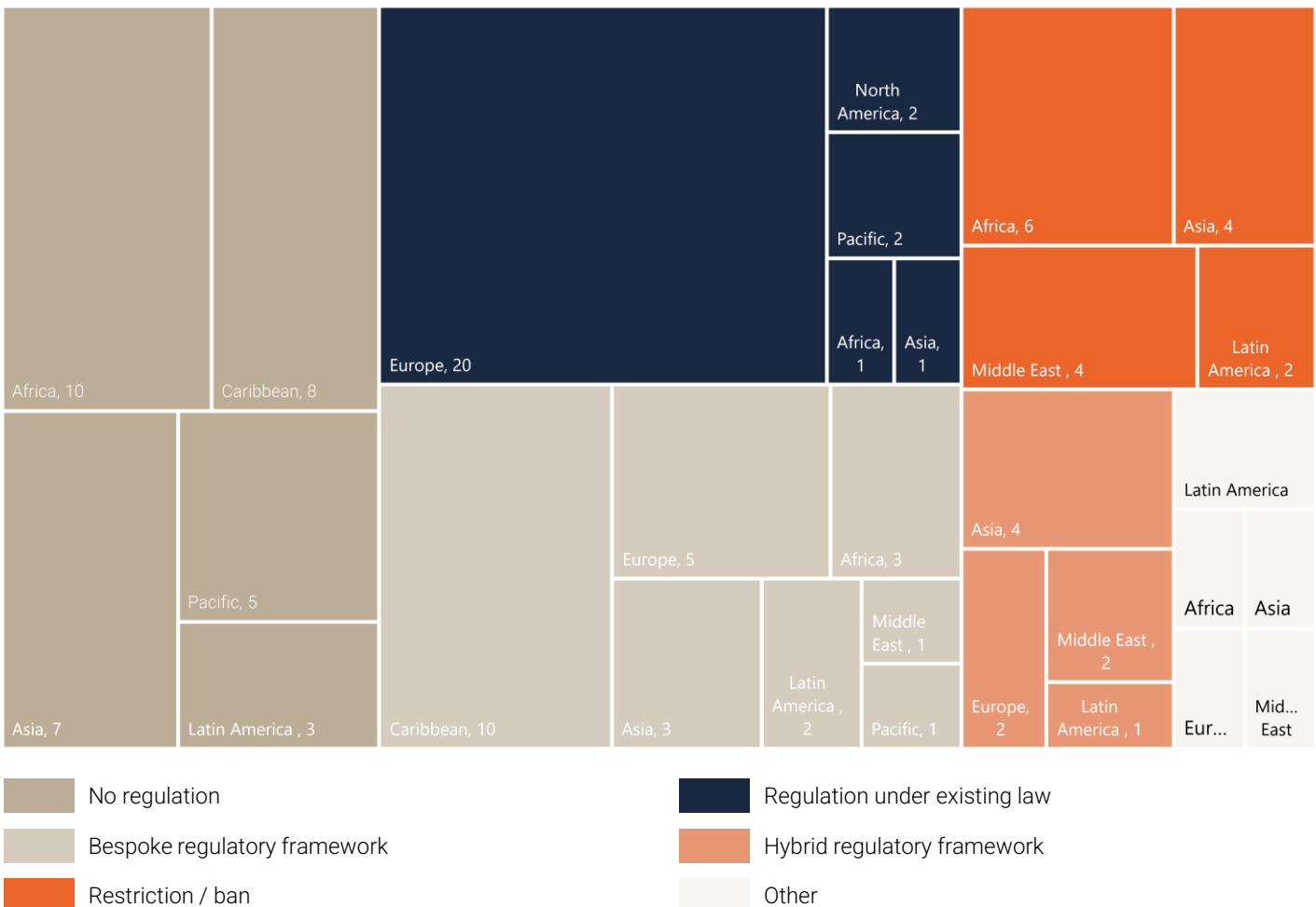
Moreover, the study highlights that of those countries with regulation in place, close to one third focus nearly exclusively on AML/CFT. Ahead of the introduction of the EU's comprehensive Market in

Crypto-Asset regulation, this has been dominant approach in Europe.

Additionally, more than 50 countries remain without a substantial regulatory framework. Of these mostly emerging market jurisdictions, a subset of approximately one third have instituted restrictions or bans while the remainder have not adopted any specific regulatory position and/or largely relied on occasional warning statements to curb activities and caution investors of the risks and lack of protections associated with cryptocurrencies.

For additional insights on the current state of cryptocurrency regulation, visit Regxelerator's [Digital Asset Regulation Navigator](#).

## REGIONAL BREAKDOWN OF CRYPTO REGULATORY MODELS ADOPTED (based on 117 countries)



## ACTIVE NATIONAL AND REGIONAL CRYPTOASSET POLICY INITIATIVES (not exhaustive)

### Canada

Strengthening of (pre-)registration requirements for crypto asset trading platforms recently announced by the CSA; OSFI due to finalize rules on prudential treatment of crypto asset exposures

01

### United States

Government-led work on the further development of the regulatory framework under the President's Digital Asset Order expected to further accelerate in 2023 following FTX implosion

02

### United Kingdom

Parliament's Financial Services and Markets Bill which proposes to extend regulations for banks and payment systems to stablecoins and other digital assets expected to be passed in H1 2023

03

### European Union

Final vote on MiCA expected for February  
Subsequently development of technical standards and guidelines by the European Supervisory Authorities during 2023/24

04

### Saudi Arabia

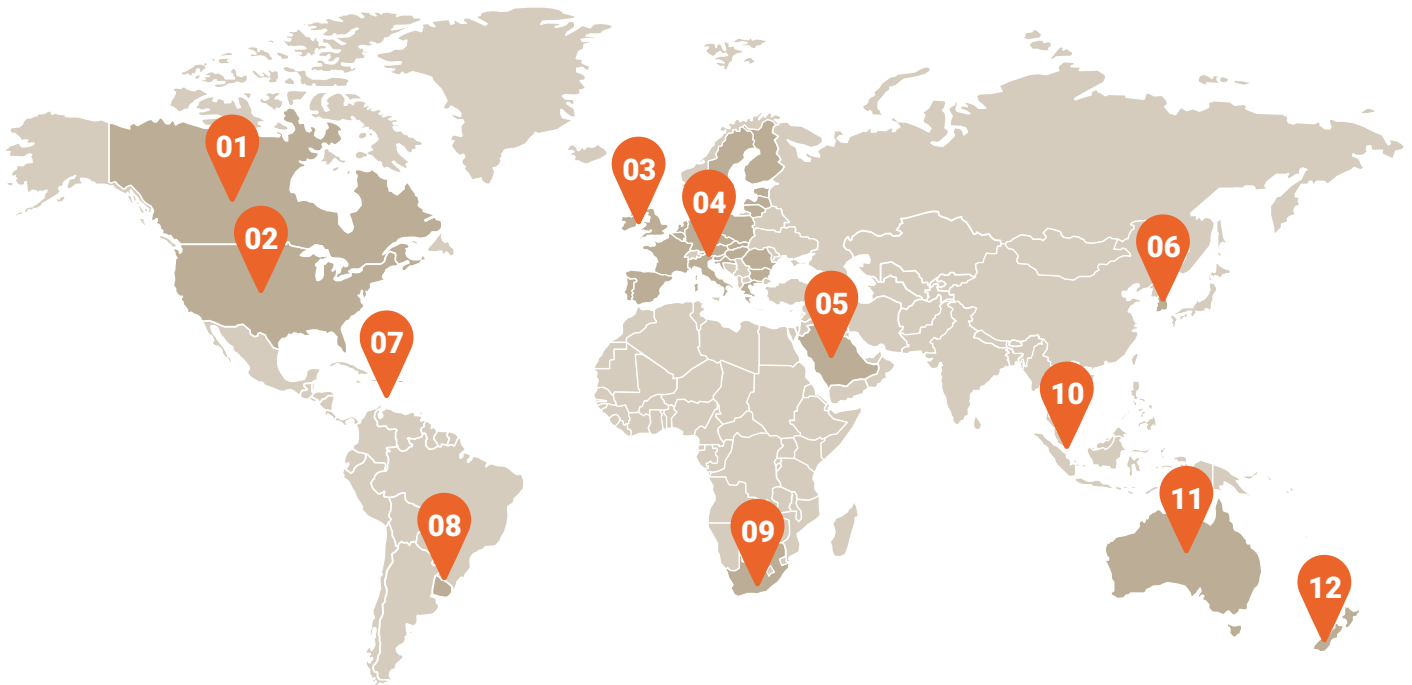
Development of the virtual asset sector prioritized under the country's new national fintech strategy, likely leading to a gradual build out of the regulatory framework in the near future

05

### South Korea

Recently formed joint private-public taskforce on digital assets mandated to deliver recommendations for the future regulatory framework for digital assets and market development

06



07

### BVI

British Virgin Islands Commission has issued the proposed Virtual Assets Service Providers Act 2022 in August 2022, which is expected to come fully into effect in 2023

08

### Uruguay

Government expected to formalize regulatory framework in the near future following release of a discussion paper in 2021 and a proposed bill in September 2022

09

### South Africa

Active implementation of several interim measures to bring cryptoassets under the existing regulatory umbrella underway led by the Intergovernmental Fintech Working Group

10

### Singapore

MAS consultation on new rules with respect to business conduct, risk disclosure and technology risk and an expanded regulatory framework for stablecoins closed in December

11

### Australia

Treasury to launch two consultation papers in 2023 incl. on a licensing and custody framework: APRA to consult on prudential regulation of crypto exposures and payment stablecoins

12

### New Zealand

Consultation underway on potential regulation of new forms of money including stablecoins with the recommendation to develop a monitoring framework as an interim measure

## DEEP DIVE – CENTRAL BANK DIGITAL CURRENCIES

Global momentum on central bank digital currencies (CBDCs) is bound to persist throughout 2023. As at the end of 2022 ~100 central banks were actively engaged in CBDC work, with Nigeria, the Bahamas and Jamaica being the sole three jurisdictions with a fully launched CBDC in addition to the Eastern Caribbean Central Bank’s long-term DCash pilot and Kazakhstan’s announcement to commence the roll-out of its Digital Tenge in 2023. While a significant share of central banks remain at a nascent research stage, a notable shift towards experimentation and piloting became visible in 2022, a trend that is

expected to further accelerate throughout 2023 with several central banks already formalized specific milestones for their next steps (see overview below) and several multi- and bilateral cross-border projects remaining underway.

In terms of the research agenda, strong emphasis will continue to be placed on critical topics including privacy, cyber-security and the broader theme of compatibility, addressing both the cross-border compatibility between national CBDCs as well as CBDC compatibility with other payment systems.

### CURRENT CBDC CROSS-BORDER PROJECTS

Project	Description	Participants
PROJECT <b>ICEBREAKER</b>	Exploration of how CBDCs may be used for international retail and remittance payments	<i>BIS Innovation Hub (Nordic Centre), Bank of Israel, Riksbank, Norges Bank</i>
PROJECT <b>SELA</b>	Test of a cyber-secure retail CBDC architecture that reduces intermediaries’ financial exposure	<i>BIS Innovation Hub Hong Kong Centre, Hong Kong Monetary Authority, Bank of Israel</i>
PROJECT <b>mBRIDGE</b>	Design of a PoC prototype to enable real-time cross-border FX payments in multiple jurisdictions using DLT	<i>People’s Bank of China, Hong Kong Monetary Authority, Bank of Thailand, Central Bank of the UAE</i>
PROJECT <b>MARIANA</b>	Investigation of automated market makers for the cross-border exchange of wholesale CBDCs	<i>BIS Innovation Hub Swiss Centre, Singapore and Eurosystem, Bank of France, MAS, Swiss National Bank</i>
PROJECT <b>CEDAR II x UBIN+</b>	Experimentation on the use of wholesale CBDCs for cross-border payments	<i>Federal Reserve Bank of New York, Monetary Authority of Singapore</i>

## NATIONAL CBDC PROJECTS WITH DEFINED MILESTONES FOR 2023<sup>1</sup>

(not exhaustive)

### RESEARCH/DESIGN

### EXPERIMENTATION / PILOTING

### ROLL-OUT

#### EUROPE (DIGITAL EURO)

Continued work on the design of functionalities and user requirements to inform the development of a decision-making document

Preparation for a potential project realization phase incl. service provider selection, subject to a decision in Q3 2023

#### THAILAND

Continued execution of the limited-scale retail CBDC pilot phase until mid-2023 involving the use of CBDC for cash-like activities such as payment for goods and services with the involvement of ~10,000 retail users and three financial services firms

#### AUSTRALIA

Execution of a CBDC pilot focused on a set of specific use cases from January through April, followed by the publication of a report with key findings including an assessment of the tested use cases in mid-2023

#### KAZAHKSTAN

Start of the phased three-year implementation of the Digital Tenge with focus on the development of a production-grade platform in collaboration with private and public sector

Intention to launch trial operations including for - social payments from government agencies to the population and government procurement

#### UNITED KINGDOM

Planned release of several papers by the UK Treasury during Q1 including a consultation paper to consult on the potential design of a digital pound and a working paper addressing technology considerations

#### INDIA

Continued execution and possible of the two active, limit-scale pilots for a wholesale and a retail Digital Rupee, with a possible scope expansion

Currently nine banks are due to participate in the wholesale pilot and eight in the retail pilot

#### FRANCE

Continued implementation of the second phase of experimentation on a wholesale CBDC with a set of sub-experiments with participation from the private sector and other foreign central banks with the objective of creating a viable prototype during the year

#### MALAYSIA

Continued execution of a proof-of-concept for the application of a wholesale CBDC and DLT to enhance and future-proof the existing domestic wholesale payment system RENTAS

#### TURKEY

Continued operation of limited, closed-circuit pilot tests with technology stakeholders during Q1, followed by the release of an evaluation report

Additional work plans beyond Q1 already signaled

## DEEP DIVE – SUSTAINABLE FINANCE

While significant progress has been accomplished in the past years in formalizing the policy framework for sustainable finance and the focus now progressively shifting towards embedding the new standards and expectations into supervisory frameworks and activities, various critical policy

priorities remain to be addressed as part of a multi-year effort. Several of the priorities are strategically geared towards addressing greenwashing, which remains a critical concern and is also attracting greater attention from a supervisory and enforcement perspective.

### KEY GLOBAL SUSTAINABLE FINANCE POLICY PRIORITIES



### ADDRESSING NATURE-RELATED RISKS AND BIODIVERSITY LOSS

“Nature-related risks, including those associated with biodiversity loss, could have significant macroeconomic implications, and that failure to account for, mitigate, and adapt to these implications is a source of risks for individual financial institutions as well as for financial stability”, the NGFS concluded in early 2022.

While attention on nature-related risks has picked on the heels of the adoption of the “Kunming-Montreal Global Biodiversity Framework” at the 15th UN Biodiversity Conference (COP15) in December, at the current juncture work largely remains at an exploratory research stage, which will likely persist at least in the immediate future.

The NGFS will continue to be a critical catalyst in driving forward the agenda. As part of its 2022-2024 work program, it has formed a dedicated nature-related risk task force, mandated among other things to map existing know-how, initiatives, risk transmission channels, resources, and challenges in the area of nature-related risk.

In addition, the global Taskforce on Nature-Related Disclosure in 2023 is expected to deliver further iterations of proposed disclosure framework as well as expand its member and support network in an effort to accelerate the adoption of the framework and raise awareness on the criticality of nature-related risks.

Much of the work in the eight policy areas continues to be led top-down by global and regional standard setters and in close collaboration with industry. This supports the objective of achieving greater convergence and harmonization of standards and taxonomies and avoids inconsistencies or undue

regulatory burden down the road as well as supports early buy-in. Besides policy work, emphasis remains on strengthening critical enablers such building out the data infrastructure and advancing capacity building both in the public and private sector.

## MAPPING OF KEY REGIONAL/GLOBAL INITIATIVES VS. SUSTAINABLE FINANCE POLICY PRIORITIES

01	Corporate reporting	<ul style="list-style-type: none"> <li>▪ <b>ISSB:</b> Ongoing work to design the sustainability-related financial reporting standards</li> <li>▪ <b>TCFD:</b> Annual release of the status report, describing adoption progress and highlighting emerging best practices and shortcomings</li> </ul>
02	Conduct of business requirements	<ul style="list-style-type: none"> <li>▪ <b>European Supervisory Authorities:</b> Multiple guidelines issued in relation to the integration of sustainability considerations into suitability assessments including under MIFID II</li> </ul>
03	Product disclosure & labels	<ul style="list-style-type: none"> <li>▪ <b>European Supervisory Authorities:</b> Call for evidence on greenwashing to better understand risk and practices and inform the potential regulatory response</li> <li>▪ <b>ESMA:</b> Proposal to introduce quantitative thresholds on the minimum proportion of investments when using ESG or sustainability-related terms in fund names</li> </ul>
04	ESG data and rating providers	<ul style="list-style-type: none"> <li>▪ <b>IOSCO:</b> Publication of a call for action for good Sustainable Finance Practices targeted at ESG rating and data providers</li> <li>▪ Various national authorities have or are in the process of introducing code of conducts (e.g. Japan, UK) or accreditation frameworks (e.g. India)</li> </ul>
05	Prudential treatment of exposures	<ul style="list-style-type: none"> <li>▪ <b>EBA:</b> Ongoing development of the approach to incorporating environmental risks into the Pillar 1 prudential framework for credit institutions and investment firms</li> <li>▪ <b>EIOPA:</b> Ongoing consultation on insurers' prudential treatment of sustainability risks</li> </ul>
06	Carbon markets	<ul style="list-style-type: none"> <li>▪ <b>IOSCO:</b> Ongoing consultation on the development and functioning compliance and voluntary carbon markets including regulatory considerations for areas such as market access, market integrity, price discovery, governance and risk management</li> </ul>
07	Protection gaps	<ul style="list-style-type: none"> <li>▪ <b>EIOPA:</b> Inaugural release of a new periodic dashboard on insurance protection gap for natural catastrophes and analysis of consumer behavior and contractual terms and conditions for natural catastrophes or climate-related risks</li> </ul>
08	Macroprudential framework	<ul style="list-style-type: none"> <li>▪ <b>FSB:</b> Publication of early considerations for potential macroprudential tools and policies to address the system-wide dimension of climate risk as part of its recommendations for the integration of climate-related risks into regulatory and supervisory frameworks</li> </ul>

## DEEP DIVE – OPERATIONAL RESILIENCE

Operational resilience, in addition to being a core supervisory focus area, will persist as a cross-sectorial policy priority. Consistent with the developments over the past two years, critical focus will remain on cyber and third-party vendor management, including greater emphasis on the systemic risk dimension.

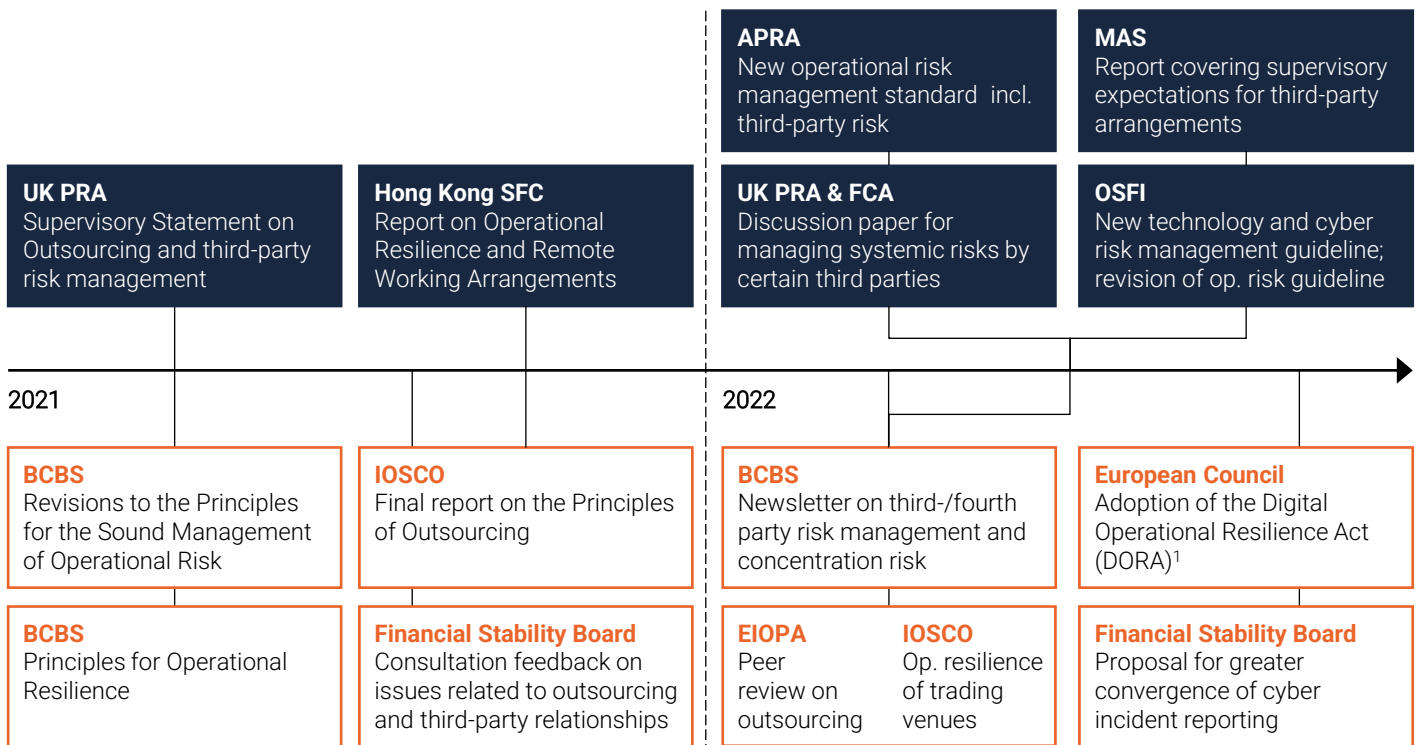
Across geographies, authorities will continue to update national banking regulatory standards to transpose the BCBS' new Principles for Operational Resilience and the revised Principles for the Sound Management of Operational Risk or feed these into relevant cross-sectorial policy initiatives. In addition, the FSB's recent proposal to achieve greater convergence in cyber incident reporting and standardization in the associated terminologies will drive further critical policy dialogue.

In Europe, following the formal adoption of the Digital Operational Resilience Act (DORA) by the

European Council in Q4 2022, the European Supervisory Authorities will throughout 2023/24 jointly lead the development of the regulatory and implementing technical standards, ahead of the Act entering into force in 2025. These efforts will be complemented by work to address the ESRB's recommendation for the establishment of a pan-European systemic cyber incident coordination framework, which is due to start in 2023 as well. Meanwhile, in the UK, it is expected that during 2023 proposals for the introduction of a critical third-party provider designation framework, that would among other things introduce minimum resilience standards for designated third-party service providers and subject them to resilience testing, will evolve further.

Besides these priorities, early consideration is also being given to the impact of quantum computing and how to future-proof cyber resilience frameworks through the use of post-quantum cryptography.

### TIMELINE OF OPERATIONAL RESILIENCE POLICY INITIATIVES / REPORTS (not exhaustive)



# SUPERVISION PRIORITIES

## OVERVIEW

Supervision priorities in 2023 will be heavily shaped by the changed macroeconomic conditions and volatile markets, brought about by the impact of the geopolitical tensions and Russia's invasion into the Ukraine. As the outlook remains uncertain, with interest rates bound to further increase as central banks maintain their tightened monetary policy stance and subdued economic growth expectations, further repercussions on the financial sector become increasingly likely in addition to the legacy effects of the COVID-19 pandemic.

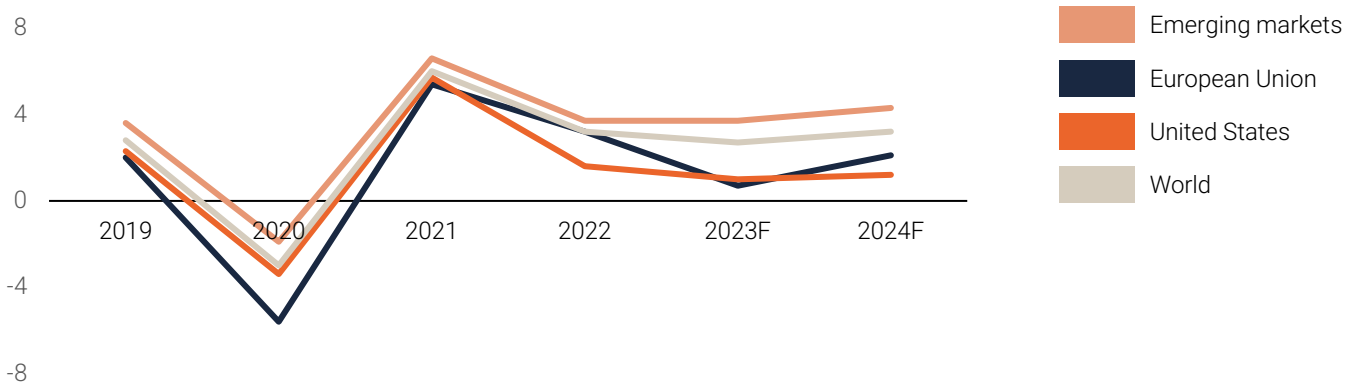
The consequence is a sharply elevated supervisory focus across all industries on financial institutions' resilience as well as the vulnerabilities that the uncertain market environment and altered risk landscape introduces for consumers and investors. This will be supplemented by focus on other more structural themes and vulnerabilities that stem from the longer-term shifts and digitalization of the industry, many of which are carried over from 2022.

Page 17 depicts an overview of the main anticipated cross-sector and sector-specific supervisory focus areas that complement baseline supervision activities.

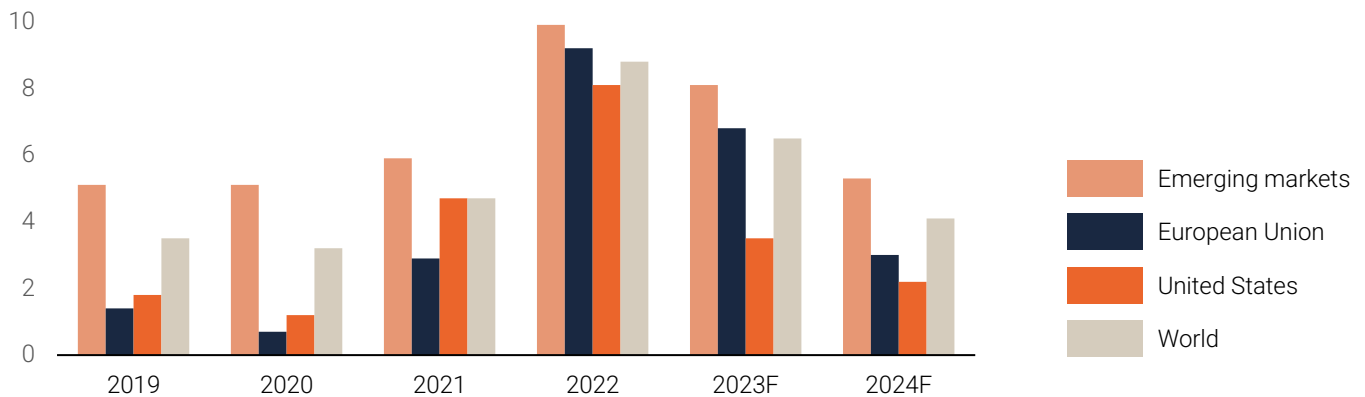


## EVOLUTION & FORECAST OF KEY ECONOMIC INDICATORS

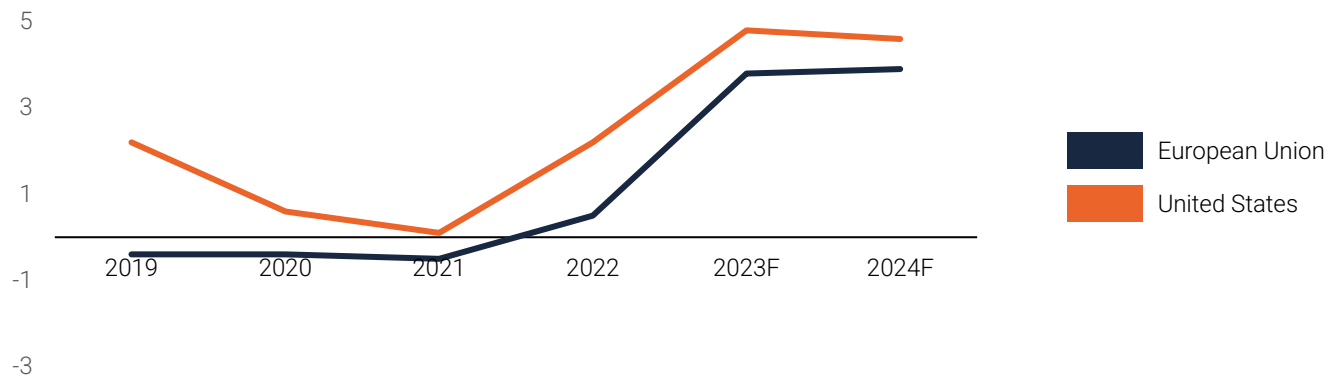
### REAL GDP GROWTH<sup>1</sup> (annual % change)



### INFLATION RATE<sup>1</sup>



### SHORT-TERM INTEREST RATE<sup>2</sup>



1 Source: IMF World Economic Outlook, October 2022

2 Source: OECD Economic Outlook

## KEY SUPERVISORY FOCUS POINTS

### CROSS-SECTOR THEMES

#### FINANCIAL RESILIENCE

- Impact of and resilience vis-a-vis inflation and rising interest rates on the financial position including asset quality, liquidity and funding and capital and operational costs
- Adequacy of stress testing practices as well as financial risk data infrastructure and reporting

#### OPERATIONAL RESILIENCE

- Robustness of the operational resilience framework including the end-to-end cyber risk management programme including incident response
- Scope and nature of third-party vendor arrangements and concentrations and the adequacy of the underlying control infrastructure

#### CONSUMER PROTECTION

- Fair treatment of vulnerable consumer groups amid the uncertain economic environment, elevated living cost and the potential impact on financial capacity
- Consideration of inflation and other changing economic variables in product suitability assessments as well as client disclosure and marketing

#### ESG FACTORS / CLIMATE RISK

- Progress in embedding ESG and climate risk considerations into strategy and operations and in the adoption of ESG disclosure practices
- Exposure to physical and transition risk factors, supported by scenario analysis and stress testing
- Monitoring for potential greenwashing

#### DIGITAL TRANSFORMATION

- Adequacy of digital transformation strategies including impact of the deployment of new technologies such as artificial intelligence and blockchain and/or expansion into new business sectors (e.g. fintech, cryptocurrency)

#### DIVERSITY, INCLUSION & EQUITY

- Maturity in embedding principles of diversity, inclusion and equity in policies, operations and the overall culture including progress in the representation of women and minority groups on the board and in senior leadership positions

### ADDITIONAL / COMPLEMENTARY INDUSTRY-SPECIFIC CONSIDERATIONS

#### BANKING

- Adequacy of credit risk management frameworks including credit risk provisioning practices
- Liquidity and funding mix/plans
- Business model viability

#### INSURANCE

- Consideration of inflation from a prudential perspective including with respect to modeling and capital calculation assumptions
- Soundness of cyber insurance underwriting strategy and practices
- Impact of increasing private equity ownership of insurance firms
- Adequacy of product design and governance

#### SECURITIES & MARKETS

- Governance, transparency and disclosure practices in relation to investment products with an ESG nexus
- Adequacy of marketing and distribution practices to retail investors including through digital channels
- Orderly functioning of energy and commodity derivatives markets

Given the nascent stage of development and prevailing heterogeneity in regulatory frameworks, supervision priorities in the crypto-asset sector are not yet to the same degree harmonized as they are for traditional sectors.

In principle though, the identified cross-sector themes to a large degree apply as well. In jurisdictions that have more comprehensive cryptoassets regulatory frameworks in place, it is expected that supervisory scrutiny in areas such as governance, risk and control frameworks, as well as client asset segregation will significantly increase to reflect the lessons learned from the sector's recent development.

## **INSIGHT: THE CLIMATE STRESS TEST AGENDA**

2022 saw the completion of and publication of key findings from several inaugural climate stress testing and climate vulnerability assessments globally, including in Canada, the European Union as well as Australia, across both banking and other sectors. Insights have proven valuable to establish a foundational view of institutions exposure to transition and physical risk while also gaining better understanding of the maturity of climate risk management capabilities.

Following the first wave of exercises, climate stress testing remains top of the agenda in 2023 with several authorities having already announced their intended programs for the year.

In addition to these efforts, authorities that already have completed exercises are expected to incorporate the insights into their supervisory work to drive more targeted follow-up and hold institutions accountable in addressing identified shortcomings.

### **Key programs and efforts announced for 2023**

- The European Insurance and Occupational Pensions Authority, in collaboration with the other European Supervisory Authorities and the European Systemic Risk Board, will initiate one-off stress test exercise on transition risks
- The U.S. Federal Reserve Board will carry out a pilot climate scenario analysis with the country's six largest banks during early 2023
- The European Securities and Markets Authority is actively building out its approach for climate risk stress testing of central counterparties

# ENFORCEMENT PRIORITIES

## OVERVIEW

Enforcement activity in 2022 stayed on a strong path globally with a broad spectrum of infractions addressed, holding accountable both firms and individuals, and several new records set with respect to fines levied and restitutions in the United States and other geographies with an established enforcement track record.

As case load remains high and cases become increasingly complex, enforcement departments continue to benefit in the delivery of their high activity levels from the roll-out of new technology and data analytics solutions, supporting greater efficiency and effectiveness in case management and investigation as well as new insights.

Looking ahead into 2023, we can overall expect a continuation of the main directions and priorities that have characterized enforcement actions in preceding years, with some light shifts to reflect evolving market conditions and industry trends.

## Consistent attention on traditional domains including AML/CFT with use of the full toolkit

Despite a growing breadth and diversity in cases, the bulk of authorities' casework will remain concentrated in core areas that risk undermining the integrity of markets and result in direct harm to consumers and investors including cases involving misconduct, fraud and scams, market abuse and illegal or unlicensed activity. Authorities will show particularly low tolerance in cases where vulnerable or minority consumer groups are subject to harm.

On top of this, authorities will continue rigorous enforcement of material AML/CFT-related control failures as has been over and over again evidenced through high-profile actions including in 2022 and prior years.

Overall, authorities will continue to tap into their full enforcement toolkit, applying penalties, bans or restrictions, criminal charges and other actions including early disruption tools as applicable to pursue successful enforcement outcomes. Besides enforcement at the institutional level, authorities will

also further expand their focus in holding individuals in senior management and director positions accountable for significant oversight and governance failures.

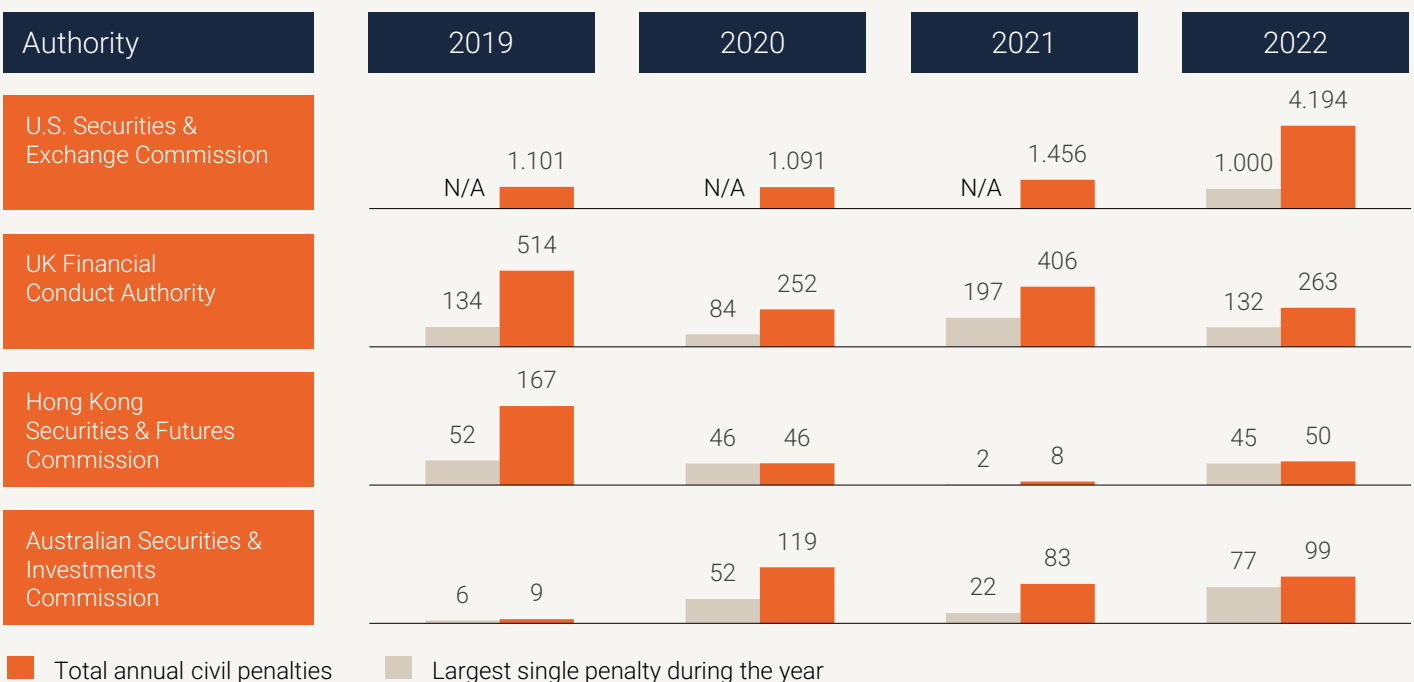
## Continued record penalties levels to reinforce credible deterrence

As part of their approach, authorities will continue to demonstrate readiness to levy multi-million penalties to ensure a strong signaling and deterrent effect.

In 2022, this was prominently evidenced by U.S. authorities including the CFTC's record civil penalty of USD 1.2 BN levied against the commodity trading and mining firm Glencore for manipulation and foreign corruption and the settlement for an over USD 1BN penalty that the U.S. Securities and Exchange Commission reached with Allianz Global Investors, and which accounted for approximately one quarter of all civil penalties in fiscal year 2022. Similar patterns have been emerging in other geographies and are expected to prevail in the foreseeable future.

### INSIGHT: EVOLUTION OF ENFORCEMENT PENALTIES ACROSS SELECT GEOGRAPHIES<sup>1</sup>

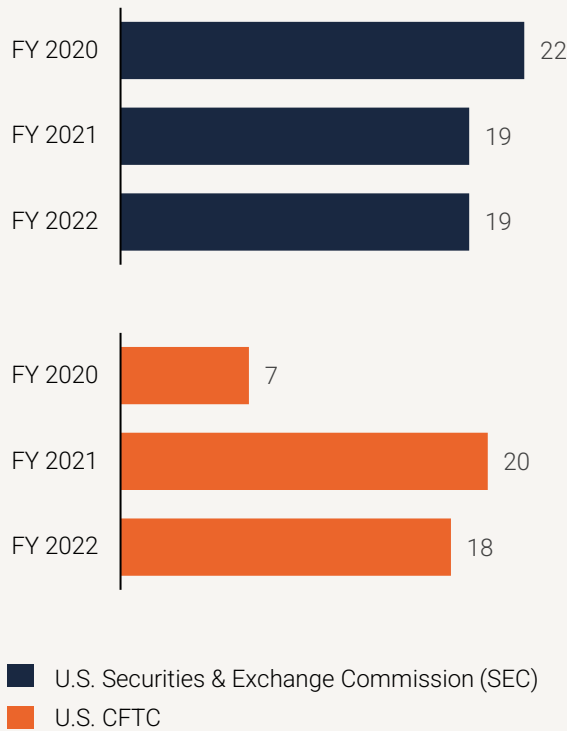
(all values in USD MM, if applicable converted using year-end FX ratios)



<sup>1</sup> Sources: Authority websites, enforcement reports; Regxelerator analysis

## INSIGHT: CRYPTO-RELATED ENFORCEMENT ACTIVITY IN THE U.S.<sup>1</sup>

(number of cryptoasset-related cases)



- In FY 2021 and FY 2022, cryptoasset-related cases accounted for 36% and 22%, respectively, of all CFTC enforcement cases
- Nearly half of all the SEC's cases involved action against unregistered and illegal businesses
- Additionally, across both agencies, cases related to large scale fraud schemes, market manipulation and misleading disclosures accounted for a dominant share
- The largest penalty in FY 2022 – USD 100 million – was levied by the SEC against BlockFi for failure to register, followed by a USD 41 million penalty by the CFTC against Tether over claims that the Tether stablecoin was fully backed by USD
- On top of the agencies' work, the U.S. Treasury pursued two high-profile cases against the virtual currency exchange Bittrex over sanctions and AML control failures and sanctioned the virtual currency mixer Tornado Cash

<sup>1</sup> Sources: Authority websites, enforcement reports, press releases

### Further deepening of focus and accelerated action in novel areas

Beyond traditional casework, it is anticipated that authorities will further markedly step up their focus in emerging areas, with particular attention being directed to ESG, crypto as well as operational resilience and cyber-related cases, mirroring the expected greater scrutiny from a supervisory perspective. While in relative terms, the number of enforcement actions in these areas has remained limited, their signaling value is considered material.

In some jurisdictions, the growing focus on these areas is reinforced through the work of specialized task forces, such as the Canadian Securities Administrators Emerging Issues Taskforce and the U.S. Securities and Exchange Commission's dedicated ESG and crypto enforcement teams, which in 2022 grew further in size.

### Crypto

The crypto market developments of 2022 have provided the breeding ground for a further significant toughening of the enforcement stance in the year ahead. After consistently strong year-on-year activity, once again most prominently in the U.S., authorities across the globe have in the wake of the FTX implosion and the fraud revelations already publicly voiced their readiness to rigorously pursue non-compliance with regulations moving forward.

As a result, authorities will likely resort to harsher actions faster to signal the compliance expectations towards the industry, as demonstrated in the swift and coordinated action taken against the FTX leadership team. This shift in stance will likely also apply to authorities that have previously largely relied on warnings to deter illegal or wrongful activities.

## INSIGHT: ESG AND GREENWASHING RELATED ENFORCEMENT CASES<sup>1</sup>

(2022)

Authority	Case summary	Enforcement action / outcome
U.S. Securities & Exchange Commission	BNY Mellon Investment Adviser was charged for materially misleading statements and omissions about its consideration of ESG principles in making investment decisions for certain mutual funds	<b>USD 1.5 MM penalty</b>
U.S. Securities & Exchange Commission	Goldman Sachs Asset Management was charged for failures in following policies and procedures failures in relation to ESG research its investment teams used to select and monitor securities	<b>USD 4 MM penalty</b>
Australian Securities & Investments Commission	The Australian arm of the investment manager Vanguard was alleged to mislead investors by overstating in its product disclosure an exclusion in relation to the sale of tobacco products	<b>Three infringement notices issued involving a payment of ~AUD 40k</b>

<sup>1</sup> Sources: Authority press releases

### ESG incl. greenwashing

In 2022 some of the first substantial and high-profile enforcement actions in relation to greenwashing were taken in addition to select cases involving broader ESG-related failures. The U.S. Securities and Exchange Commission, under the leadership of its ESG Enforcement Task Force, issued ESG-related enforcement penalties amounting to at least USD 30 million during the year.

Amid increasing scrutiny over greenwashing practices, several authorities – among them the Australian Securities and Investments Commission, the U.S. Securities and Exchange Commission as well as the European Securities and Markets Authority - have already proceeded to formalize greenwashing as an enforcement priority for the forthcoming year and others are expected to follow.

Outputs of the ongoing efforts in Europe and other jurisdictions to better understand the nature and

common cases of greenwashing will further equip supervisors with reference points and help avoid ambiguities in establishing when greenwashing is present and strengthen the case for enforcement.

### Operational resilience & cyber

As standards for operational resilience and cyber continue to tighten, enforcement of material control failures is expected to become more frequent. Focus will likely remain on cases involving persistent, structural failures and/or circumstances where clients at a large scale have been adversely impacted as a result of a lack of robust controls.

### Elevated focus on sanctions compliance

Finally, amid Russia's continued invasion into the Ukraine, non-compliance with the associated sanctions regime will also continue to be rigorously enforced. Here too, cryptoassets providers are likely to come under heightened scrutiny.

## INSIGHT: THE VALUE OF REGULATORY WHISTLEBLOWER AWARD PROGRAMS<sup>1</sup>

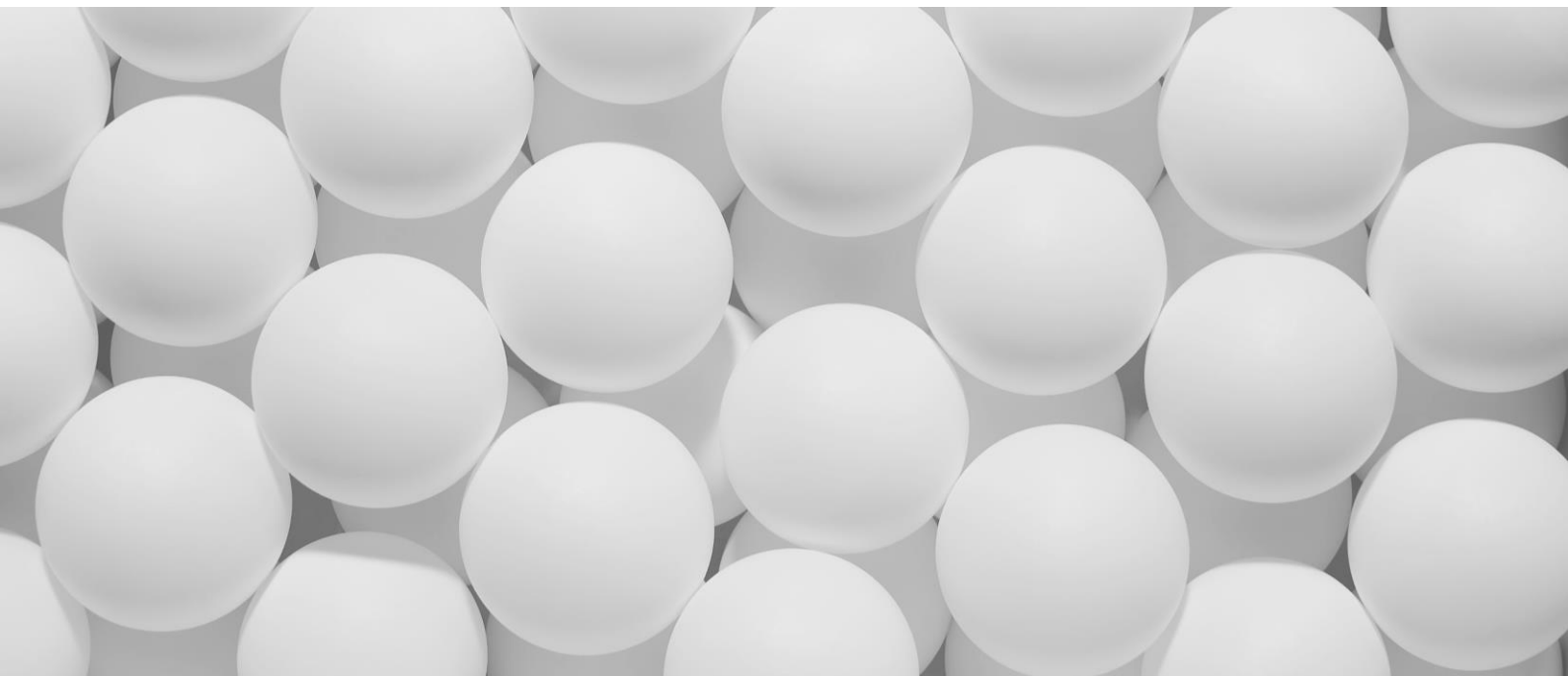
Amid continued robust enforcement activity, intelligence from whistleblower has become a central pillar of effective enforcement programs, supporting earlier intervention and more targeted investigations. Many jurisdictions with bespoke whistleblower legal frameworks in place have seen a steady rise in whistleblower tips. To further encourage and incentivize whistleblowers, several authorities in the U.S. and Canada have over the past decade introduced dedicated award programs.

In all cases, the programs have significantly spurred the influx of tips and helped secure significant volume of monetary and other sanctions. At the U.S. CFTC, enforcement actions associated with whistleblower input have resulted in monetary sanctions of over USD 3 BN while in Canada the Ontario Securities Commission reported at the program's five-year anniversary in 2021 that it led to nearly CAD 44 million (~USD 35) of monetary sanctions and voluntary payments since inception.

Authority	Number of tips received in FY 2022 (3-year average)	Money awarded to whistleblowers by FY (USD MM) <sup>2</sup>	Total money awarded since program launch <sup>2</sup>								
U.S. Securities & Exchange Commission	<b>12,600+ tips</b> (average not available)	<table border="1"> <tr><th>Year</th><th>Money awarded (USD MM)</th></tr> <tr><td>2022</td><td>229</td></tr> <tr><td>2021</td><td>564</td></tr> <tr><td>2020</td><td>175</td></tr> </table>	Year	Money awarded (USD MM)	2022	229	2021	564	2020	175	<b>USD 1,300+ million</b> (Year of launch: 2010)
Year	Money awarded (USD MM)										
2022	229										
2021	564										
2020	175										
U.S. Commodities & Futures Commission	<b>1,500+ tips</b> (~1,164 tips)	<table border="1"> <tr><th>Year</th><th>Money awarded (USD MM)</th></tr> <tr><td>2022</td><td>204</td></tr> <tr><td>2021</td><td>3</td></tr> <tr><td>2020</td><td>20</td></tr> </table>	Year	Money awarded (USD MM)	2022	204	2021	3	2020	20	<b>USD 330+ million</b> (Year of launch: 2014)
Year	Money awarded (USD MM)										
2022	204										
2021	3										
2020	20										
Ontario Securities Commission	<b>187 tips</b> (~165 tips)	<table border="1"> <tr><th>Year</th><th>Money awarded (USD MM)</th></tr> <tr><td>2022</td><td>0,15</td></tr> <tr><td>2021</td><td>0,43</td></tr> <tr><td>2020</td><td>0,39</td></tr> </table>	Year	Money awarded (USD MM)	2022	0,15	2021	0,43	2020	0,39	<b>USD 9+ million</b> (Year of launch: 2016)
Year	Money awarded (USD MM)										
2022	0,15										
2021	0,43										
2020	0,39										

<sup>1</sup> Sources: Authority press releases, enforcement reports, annual reports

<sup>2</sup> Given the different legal frameworks for enforcement and whistleblowing, a cross-comparison of money awards is discouraged





# INTERNAL PRIORITIES

## OVERVIEW

Authorities' internal strategic priorities on balance will also in 2023 remain consistent with those of prior years and contribute towards their multi-year transformation agendas that seek to future-proof their operating models and position themselves modern, flexible and data-driven and innovation-centric organizations that are attractive to a diverse set of talent.

At the same time, the experience of the unprecedented global pandemic along with the recent market volatility have reiterated the need for authorities to strengthen agility while concurrently further building up institutional resilience.

Against this backdrop, we can expect to see **seven interrelated focus areas**, albeit with different individual nuances, reflecting the different stages of the transformation cycle that authorities remain in:

1. Working model
2. Resource management
3. Resilience
4. Governance & controls
5. Agility & effectiveness
6. Internal innovation
7. Sustainability

# 01

## WORKING MODEL

- Anchoring flexibility in the working model through further formalization of hybrid working arrangements, guided by proper policies
- Expanding and optimizing novel productivity and collaboration tools and techniques, both digital and non-digital

# 02

## RESOURCE MANAGEMENT

- Freeing up capacity through process optimization and automation
- Expanding the available staff skills and capabilities and enhancing the talent management lifecycle
- Driving forward the internal diversity, equity and inclusion agenda

# 03

## OPERATIONAL RESILIENCE

- Further strengthening the organization's crisis management capabilities, capitalizing on the lessons learned from the pandemic
- Continuously enhancing cyber resilience by strengthening capabilities across the full cyber security management lifecycle including response management and recovery

# 04

## GOVERNANCE & CONTROLS

- Maturing the internal systems of controls and checks and balances through continued build-out of the of the second and third line of defense frameworks and functions
- Formalizing and embedding of risk appetite to enable more consistent decision-making and intentional risk-taking

### INSIGHT: A MODERN APPROACH TO RISK APPETITE

The Canadian Office of the Superintendent of Financial Institutions (OSFI), as part of its 2022-2025 Transformation Blueprint, is introducing a dedicated risk appetite statement with the objective of achieving greater consistency in decision-making and shifting towards a more progressive approach in risk-taking<sup>1</sup>.

Examples of the envisaged organizational shifts under the new framework, as articulated by OSFI, include the following:

- "We are willing to place much more emphasis on psychological safety (safe-to-fail) and diversity in making business decisions."
- "We are willing to make hard decisions based on imperfect information and risk being wrong but have a lower tolerance for making decisions too late."
- "We are willing to move away from a risk-averse culture to greater risk-taking informed by robust analysis of risk trade-offs."
- "We are willing to quickly adjust and respond to what we see through earlier intervention and corrective action."

<sup>1</sup> Source: OSFI website



# 05

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## **AGILITY & EFFECTIVENESS**

- Strengthening agility amid an increasingly rapid changing external environment
- Enhancing efficiency and effectiveness in issue identification, decision-making and response management including by leveraging data and advanced data analytics

# 06

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## **INTERNAL INNOVATION**

- Maturing the internal systems of controls and checks and balances through continued build-out of the of the second and third line of defense frameworks and functions
- Formalizing and embedding of risk appetite to enable more consistent decision-making and intentional risk-taking

### **INSIGHT: PROGRESS BY AUTHORITIES IN THEIR TECHNOLOGY AND DATA MANAGEMENT MODERNIZATION JOURNEY**

While progress across authorities remains varied given differences in operating environment and authorities' legacy technology and data environment, a significant share of authorities has now laid the foundations for a modern data architecture and management.

- Authorities commonly have adopted a holistic approach - anchored in either bespoke data strategy or a broader digitalization strategy – and at a minimum have completed the definition of the key pillars of their target data management and governance framework, started mapping and cataloguing data, and some in cases have already progressed to an advanced stage in the roll-out of their multi-year implementation plans.
- As responsibilities for data management are being assigned, particular emphasis is being placed on clarifying and strengthening the accountability and responsibility of data owners and data stewards given their critical role in securing data quality. This is complemented by efforts to build out a greater data community within the organization to help foster a data-centric mindset.
- Adoption of cloud infrastructure solutions for data storage, AI-based data analytics capabilities and certain other applications are becoming increasingly frequent. As part of these efforts, some organizations have opted for the implementation of central data lakes as a solution of choice for their data management.
- In addition to the continued adoption of supotech solutions for data collection and analytics, many authorities are actively exploring the use of robotic process automation, with some having already achieved substantive time savings through their implementation.
- While organizationally the architecture for the allocation of responsibilities for data management continues to vary, as a common denominator a shift towards central data management leads can be observed, either established as a standalone function, combined with traditional technology functions, or subsumed under functions with a broader internal and/or external innovation mandate.

# 07

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## SUSTAINABILITY

- Further formalizing and operationalizing the strategy for embedding sustainability and other ESG considerations into the operating model and cultivating principles of sustainability among the staff population

## INSIGHT: EMBEDDING SUSTAINABILITY CONSIDERATIONS INTO OWN OPERATIONS

In addition to embedding of ESG and climate into regulatory and supervisory frameworks and, in the case of central banks, own investment considerations, authorities increasingly address sustainability in relation to their own physical

operations. The following overview provides a synthesis of key practices that leading authorities have adopted to effectively drive these efforts. Important to note is that many of these are closely intertwined with authorities' broader ESG agenda.

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### KEY PILLARS OF THE APPROACH TO EMBEDDING SUSTAINABILITY INTO OWN OPERATIONS

#### STRATEGY

- A medium to long-term sustainability roadmap for achieving sustainability in own operation is established, on a standalone basis or integrated into the authority's broader sustainability / ESG strategy
- Soft and hard targets over distinct time horizons are established including the path to net-zero

#### GOVERNANCE & POLICIES

- Clear responsibilities are assigned for oversight of sustainability related to own operations
- This is supported by formal governance body
- A dedicated environmental policy (or equivalent) is in place that is aligned with the internal sustainability strategy

#### CULTURE

- A sustainability-centric mindset among staff is proactively cultivated, supported through awareness and learning initiatives as well as by addressing the theme at organization-wide events
- Use of soft incentive or behavioral nudges (e.g. in the form of gamification) to prompt changes

#### RISK MANAGEMENT

- Sustainability risk in relation to own operations is integrated into the authority's risk taxonomy and actively monitored and managed
- A periodic risk assessment is carried out that among other things considers the physical and transition risks vis-à-vis own operations

#### REPORTING

- Annual reporting on the environmental profile of the internal operations, integrated into the annual report or a standalone sustainability report
- The reporting is aligned with TCFD dimensions as well as links back to the objectives defined under the roadmap

#### METRICS

- In support of ongoing monitoring, risk assessment and reporting, specific metrics established
- Where possible these are aligned with international standards (e.g. GHG protocol)

#### PROPERTY MANAGEMENT

- The authority's property has been assessed with respect to sustainability features
- If possible, (additional) measures to optimize energy and water efficiency are adopted over time in line with the objectives under the roadmap

#### PROCUREMENT

- Sustainability requirements in relation to procurement are transparently defined and formally embedded into the procurement policy and/or procurement evaluation framework

#### COMMUNITY

- The authority actively champions and role models sustainability within the broader community, e.g. through targeted collaborations and/or period community support events with a sustainability or broader ESG nexus

As par the institutionalization of sustainability reporting, leading peers have started to comprehensively disclose their environmental footprint. At a minimum this includes reporting of the CO<sub>2</sub> emission profile, with advanced peers reporting in accordance with GHG Protocol across all scope tiers, providing both a point-in-time and historical view. If offset mechanisms are deployed, the amount and nature of the offset is transparently disclosed.

Complementary to the disclosure of carbon emissions, select authorities have further expanded their reporting to encompass additional details in relation to aspects such as energy consumption as well as the water, waste and paper usage profile. This however is not yet a consistent practice, with the level of granularity of the reporting on these dimensions still varying significantly.

To the extent that under the sustainability roadmap specific targets are prescribed identified, these are incorporated into the reporting to document progress over time and explain deviations and/or outliers.

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## **COMMON CO<sub>2</sub> REPORTING DIMENSIONS FOR AUTHORITIES' OWN OPERATIONS UNDER THE GHG PROTOCOL**

(alternative dimensions may apply subject to the profile of the physical operations/ infrastructure)

### **SCOPE 1**

*Direct emissions*

- Natural gas
- Vehicle fleet
- Refrigerants
- Other fuels

### **SCOPE 2**

*Emissions from purchased energy*

- Electricity
- District heating

### **SCOPE 3**

*Indirect emissions*

- Business travel (air, land)
  - Commute (public transport, private vehicle)
  - Waste
  - Office paper use
  - Banknotes (if applicable)
-

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Regxelerator is an early-stage start-up that was founded in mid-2022 with a focus on the delivery of technology-powered regulatory intelligence and advisory solutions to the financial regulatory community. As an intelligence platform, Regxelerator combines regulatory insights from over 400 regulatory authorities and standard setters to deliver easy access to structured information. At the current stage this includes ongoing regulatory developments and news as well as a portfolio of thematic intelligence tools, offering deep-dives into innovation-centric topics.

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