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Joint Committee - Annual Report

Year 2024

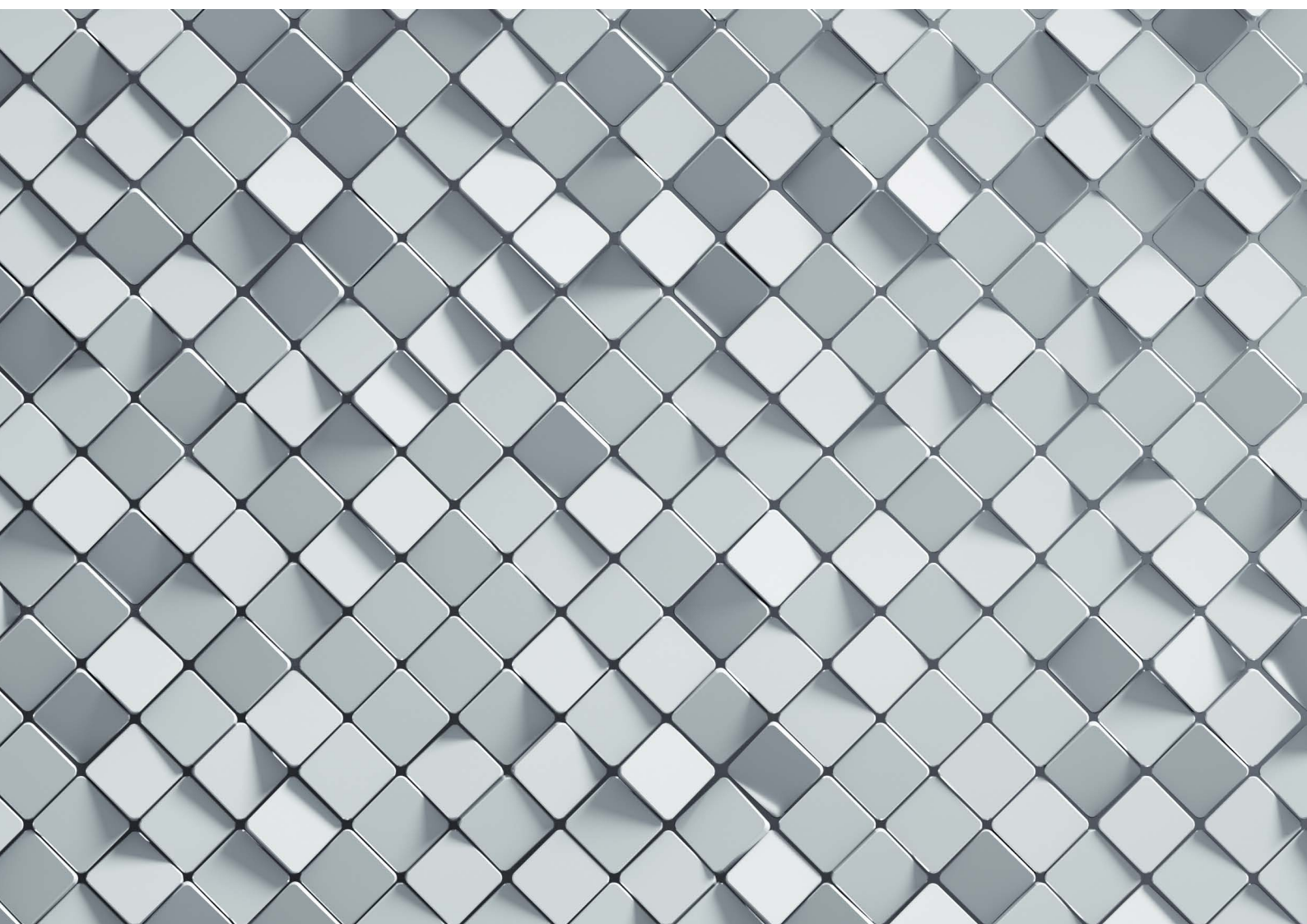


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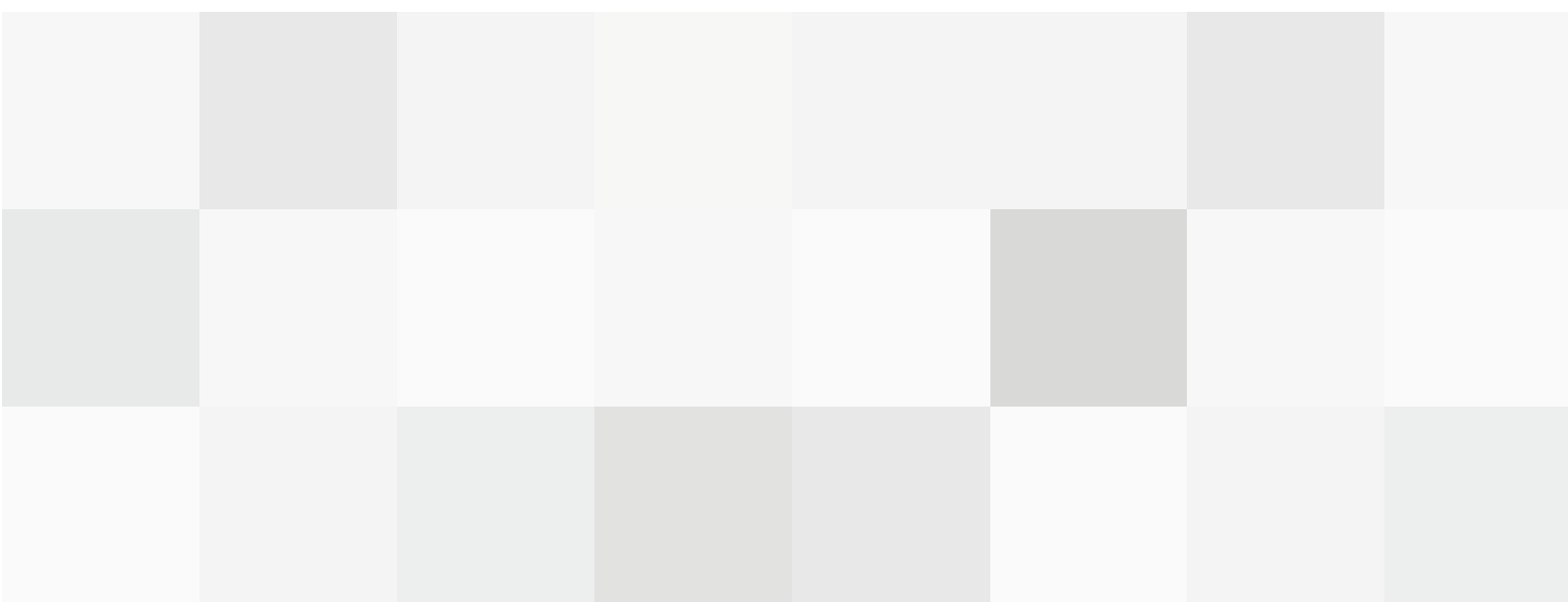
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Foreword

In 2024, the Joint Committee (JC) under the chairmanship of the European Securities Markets Authority (ESMA) continued to play a coordinating role and facilitated discussions and exchange of information across the three European Supervisory Authorities (ESAs), the European Commission and the European Systemic Risk Board (ESRB).

In 2024, the JC continued to focus on issues of cross-sectoral relevance, including joint risk assessments, sustainable finance, operational risk and digital resilience, consumer protection and financial innovation, securitisation, financial conglomerates, and the European Single Access Point (ESAP).



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1. Joint risk assessments



The Joint Committee continued to remain an important forum for discussion of cross-sectoral risk and risk analysis in 2024. In the context of the work regarding micro-prudential analyses of cross-sectoral developments, risks and vulnerabilities for financial stability, the JC prepared two joint risk reports in the Spring and Autumn of 2024.

The **Spring risk report** highlighted that risks remained elevated in the context of slowing growth, uncertain interest rate environment and ongoing geopolitical tensions. It noted that, despite strong financial market performance in anticipation of potential interest rate cuts in 2024 in both the EU and the US, significant uncertainty remained, creating elevated risks of market corrections linked to unexpected events. The report highlighted the potential for credit risk to rise further as refinancing needs grew, particularly in high-yield debt and real estate, with slow economic growth and the real estate downturn potentially leading to asset quality deterioration in the banking sector. The insurance sector maintained strong capitalisation in 2023, and defined benefit pension schemes improved their financial position. However, liquidity positions slightly weakened, and challenges from subdued growth and risk repricing persisted.

The **Autumn risk report** underlined that considerable uncertainties remained regarding the future path of the global economy, inflation and monetary policy together with the interplay of these factors across jurisdictions. Amid ongoing geopolitical developments, it highlighted the potential for sudden shifts in the economic outlook and market expectations, with the high market volatility in August highlighting this risk. Against this backdrop, the report called on financial institutions, supervisors, and market participants to remain prepared for possible ongoing effects of the then still relatively high interest rates on the real economy. Vigilance was also needed regarding inflation's impact on product development. Operational risks were also highlighted, particularly cyber risks. The report also included the first "deep dive" on credit risk. In addition to presenting a cross-sectoral view of credit risk, the report noted the continuing importance of closely monitoring credit risk, with adequate provisioning policies and prudent collateral valuation needing to be maintained. In addition, the report called on institutions to remain flexible and agile, with plans to address unexpected short-term challenges.

2. Sustainable finance

Sustainable finance continued to be a central element of the work of the Joint Committee in 2024, with a specific focus on the Sustainable Finance Disclosure Regulation (SFDR).

In June 2024 the ESAs published a **joint Opinion in the context of a comprehensive review of the SFDR framework** by the European Commission where the ESAs called for a coherent sustainable finance framework that caters to both the green transition and enhanced consumer protection, taking into account the lessons learned from the functioning of the SFDR. With the Opinion, the ESAs focused on ways to introduce simple and clear categories for financial products, specifically a “sustainable” and a “transition” category. In addition, the ESAs proposed that the European Commission consider the feasibility of a sustainability indicator that would grade financial products such as investment funds, life insurance and pension products.

In July 2024, the ESAs published a new set of **Q&As** which provide guidance on new queries and questions received from stakeholders and members related to the practical application of the SFDR Delegated Regulation and include technical clarifications, inter alia, on the calculations of principal adverse impact (PAI) indicators, the look-through approach for PAI calculations and product disclosures related to sustainable investments, taxonomy-alignment and sustainable investment calculations. The new Q&As were integrated into the consolidated joint ESAs’ SFDR Q&A document.

In October 2024, ESAs also published their third **Annual report on PAI disclosures** under Article 18 of the SFDR. As in the previous reports, the 2024 report provides an overview of the state of entity-level and product-level PAI disclosures. In addition to the input gathered through a survey of the NCAs, the ESAs also used their own desk-based research and assessment of the PAI statements available in the market. The ESAs have provided an overview of good and bad practices from the third year of implementation of the voluntary disclosure and recommendations to the European Commission and NCAs. The 2024 report found positive improvements in the disclosures but also noted some shortcomings related especially to the explanations provided when financial market participants do not consider the PAIs of their investment decisions. The annual report can help NCAs to set out their risk-based approach on the supervision of PAI disclosures.



3. Digital operational resilience

The implementation of the new **Digital Operational Resilience Act (DORA)** was at the core of the JC work in 2024.

The ESAs, by involving all the competent authorities across the three sub-sectors and relevant European authorities, namely European Network and Information Security Agency (ENISA), European Central Bank (ECB), European Systemic Risk Board (ESRB) and the Single Resolution Board (SRB), delivered all level 2 and level 3 policy products for which the ESAs had a mandate in DORA for 2024. The ESAs have also prepared the **Feasibility Study on the EU Hub to centralise the reporting of major incidents**, which led to its publication in January 2025. In the context of the adoption process of the ITS Register of information, the ESAs submitted their **Opinion on this ITS to the European Commission**.



Alongside the preparation of the above-mentioned policy deliverables, the JC also had several discussions with the objective of facilitating supervisory convergence on the implementation of DORA, including for instance the preparation of the **ESAs statement on DORA** published in December 2024.

The JC has also been consulted on an ad-hoc basis regarding the implementation of the DORA Oversight Framework, or the relevant IT developments related to the reporting of the DORA registers or to the incident reporting. The ESAs endorsed several arrangements prepared to establish the oversight framework, in particular, **the mandate of the upcoming Oversight Forum** which will become a JC sub-committee in 2025.

On top of these DORA deliverables, the ESAs also delivered to the ESRB in July 2024 their **joint report regarding Sub-Recommendation on the establishment of a pan-European systemic cyber incident coordination framework (EU-SCICF)** and developed the **Terms of Reference of the EU-SCICF** setting it up as a Forum of the JC.

4. European Forum for Innovation Facilitators (EFIF)

In 2024, the EFIF, the forum set up to facilitate the exchange of information and promote supervisory convergence initiatives between national innovation facilitators (hubs and regulatory sandboxes) in the sector, hosted four regular meetings and three ad-hoc workshops on **Artificial Intelligence (AI)**, under EIOPA's term as Chair, conducted jointly with DG-FISMA.

The thematic focus of EFIF in 2024, included **decentralised finance (DeFi), Open Finance (FiDA), the provision of financial services by BigTechs, the experiences and issues faced by Authorities in the management of innovation facilitation tools, and Artificial Intelligence.**

In January 2024, the ESAs published a **taxonomy of financial innovation** and operationalised the taxonomy through a regular survey to EFIF members on a quarterly basis. The taxonomy allows the Chair of EFIF to consistently track the evolution of statistics on the operations of the innovation facilitators (i.e., the most common types of queries or use cases), which allows the ESAs to identify the most salient themes for EFIF members and tailor the agenda and work programme accordingly.

In February 2024, the EFIF published a **joint-ESA report stocktaking the scope of BigTech direct financial services provision in the EU**. The conclusions of this report recommended an annual market surveillance exercise of a short-listed group of licensed EU entities (e.g., Amazon, Alphabet, Orange) and payment institutions with a tech-enabled business model. Following up on the said recommendation, the EBA led the development of the so-called 'BigTech monitoring matrix'. The matrix aims to provide supervisors with a better overview of the type and scale of BigTechs' direct and indirect provision of financial services in the EU and to capture the relevance of BigTechs in the EU financial sector (e.g. as technology providers) by combining multiple data sources. The data will be collected once per year, with the first input being launched in January 2025.

In October 2024, the EFIF and DG-FISMA jointly hosted a series of three workshops on AI use cases in financial services to better understand the policy and supervisory implications for NCAs in relation to the AI Act. Each workshop covered a distinct set of AI use cases, including 1) risk assessments in insurance, 2) creditworthiness assessments in banking, and 3) mixed-use cases (AML/CFT, trading, green-washing detection). To anchor the workshops, DG-FISMA

issued a call for market participants and invited respondents from the three sectors: banking, insurance and securities, to present their AI use cases and discuss the regulatory or supervisory implications with EFIF members.

EFIF also held a discussion on its future direction, revolving around these questions: evaluating EFIF's current approach, identifying potential gaps, and exploring new ideas for EFIF's future development. In 2025, EFIF will structure these thoughts and work on proposals to further enhance the outcomes of EFIF.

5. Consumer protection and financial innovation

Consumer protection remained at the heart of cross-sectoral work in 2024, both in the areas of Financial Education and Packaged retail and insurance-based investment products (PRIIPs) Regulation.

As part of its efforts to coordinate education initiatives of national authorities, the ESAs organised a full-day workshop in November 2024 to allow NCAs to exchange good practices and share experiences on financial education initiatives on digitalisation. This workshop followed the theme 'Navigating financial literacy communication challenges in the digital era' and the communication with not digitally savvy consumers.

In February 2024, the ESAs organised a virtual workshop on the use of behavioral insights by supervisory authorities in their day-to-day oversight and policy work. In July 2024, the ESAs published a report providing a high-level overview of the topics discussed during the workshop and including a catalogue of various studies carried out at both the European and national levels on the use of behavioural insights in supervisory and policy work.

The ESAs published additional **Q&As**, as well as a **table of Member States language and ex-ante notification requirements concerning the requirements in the Packaged retail and insurance-based investment products (PRIIPs) Regulation and Delegated Regulation**.

Regarding the collection of information from NCAs on administrative sanctions and measures imposed in 2024, a total of twelve administrative sanctions or measures under the PRIIPs Regulation were reported to the ESAs by the competent authorities in three Member States (Belgium, Denmark and Hungary). These measures were administrative fines, orders suspending the marketing of a PRIIP and other types of sanctions or measures (under Articles 24(3) of the PRIIPs Regulation).



6. Securitisation

In 2024, securitisation has remained a key area of focus of the Joint Committee as identified as an important part of the Saving and Investment Union (SIU). Following the launch in December 2023 of a questionnaire to regulators and market participants, the JC accelerated the delivery of the **second JC report on the functioning of the Securitisation Regulation (SECR)**, after that of 2021. The ESAs focused on topics in the scope of the SECR that emerged over the last years as possible hurdles to the optimal functioning of the securitisation market in the EU. These notably included refining definitions for sponsors and public securitisations, proportionality in

the due diligence and transparency requirements, the functioning of the supervisory framework, adjustments to the STS criteria for synthetic securitisations and flexibility in retention requirements for collateralised loan obligations (CLOs).

The ESAs hosted a CLO workshop on 4 October 2024 to explore market trends and policy developments. The ESAs also conducted a data-gathering exercise with the view to gaining a better understanding of the size of the private securitisation market in the EU, focusing on private securitisations other than those originated by systemically important banks or banks already covered by COREP requirements.

Prior to the launch of the European Commission's targeted consultation on 9 October 2024 on the functioning of the securitisation framework, the ESAs intensified its efforts to assist the Commission in identifying potential policy options for inclusion in the consultation.

7. European Single Access Point (ESAP)

In 2024, the ESAs made significant progress on the ESAP project.

In the context of an extensive outreach for the development of the **draft ITS specifying certain tasks of collection bodies** and of the **draft ITS specifying certain functionalities of the ESAP**, the ESAs held an open hearing in February 2024, which saw the active participation of over 300 stakeholders.

The Final Report was submitted to the European Commission and published by the ESAs on 29 October 2024. The European Commission is currently assessing it and is expected to adopt it in the second quarter of 2025.

8. Financial Conglomerates

The ESAs published the **2024 annual list of identified financial conglomerates**, which includes sixty-three (63) financial conglomerates with the head of group located in the European Union or in the European Economic Area. Furthermore, the ESAs published several Q&As on the reporting of risk concentration and intra-group transactions for financial conglomerates on the dedicated website.

9. Other relevant cross-sectoral JC work



As part of their task to foster and monitor supervisory independence and following the publication of the ESAs joint criteria on the independence of supervisory authorities in 2023, the ESAs conducted preliminary work to prepare for the future **assessment of competent authorities' supervisory independence**.

Finally, In November 2024, the ESAs published the **Joint Guidelines on the system for the exchange of information relevant to fit and proper assessments**. Work also continued on the related IT solution consisting of a cross-sectoral CAs' contact list and searchable shared database with information relevant to fit and proper assessments of holders of qualifying holdings, directors and key function holders assessed for fitness and propriety.

10. ESAs' Joint Board of Appeal

The Board of Appeal is a joint independent body of the ESAs, introduced to effectively protect the rights of parties affected by decisions adopted by the Authorities and is responsible for deciding on appeals against certain decisions by the ESAs.

In 2024, one appeal was lodged against EIOPA. In the course of that year, the Board of Appeal dismissed one appeal against EIOPA lodged in 2023 while allowing another appeal and remitting this latter case to EIOPA. Furthermore, the Board of Appeal dismissed one appeal against ESMA, confirming the decision adopted by ESMA in October 2023.

Finally, during the annual meeting on 13 June 2024, the Board of Appeal reappointed Michele Siri as the President of the Board of Appeal and elected Margarida Lima Rego as Vice-President of the Board of Appeal, both for a two-and-half years term.

