03 November 2023

Overview of the CSSF Annual Report 2022

This newsletter consolidates the content from our series of 6 publications, offering an overview of the CSSF Annual Report for the year 2022.

This newsletter consolidates the content from our series of 6 publications, offering an overview of the Commission de Surveillance du Secteur Financier (hereinafter "the CSSF" or the "Regulatory Authority") Annual Report for the year 2022 (published on the 25th August 2023).

In this newsletter, we aim to spotlight the CSSF's notable past and upcoming priorities, sharing essential insights from off-site inspections. Furthermore, we provide an overview of key institutions under its supervision, delving into diverse dimensions of the Regulatory Authority's supervisory practices. Lastly, we shift focus to significant regulatory changes that occurred in 2022, offering a glimpse into anticipated developments for the future.

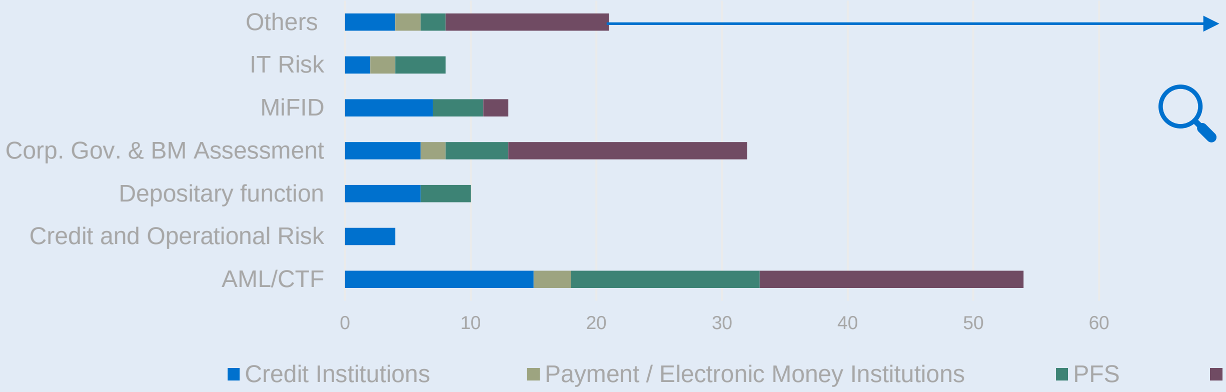
On-site Inspections – Key Findings

LEGEND:

- Credit Institutions
- PFS
- IFMs and UCIs
- Payment Institutions

This section provides an overview of key topics, and when disclosed, significant weaknesses and deficiencies identified by the CSSF during its on-site inspections. For a detailed overview on the key findings, please refer to **Appendix I**.

Breakdown of the on-site inspections in 2022 by topic



"Others" including but not limited to:

- EMIR;
- Sustainability / ESG;
- Valuation;
- "Ad hoc" covering specific situations.

Credit risk

Depositary function

Operational risk

On-site AML/CTF supervision

ICAAP (Pillar II)

MiFID

Pillar I

IT Risk

Business Model & profitability assessment

UCI Administrations

Corporate Governance

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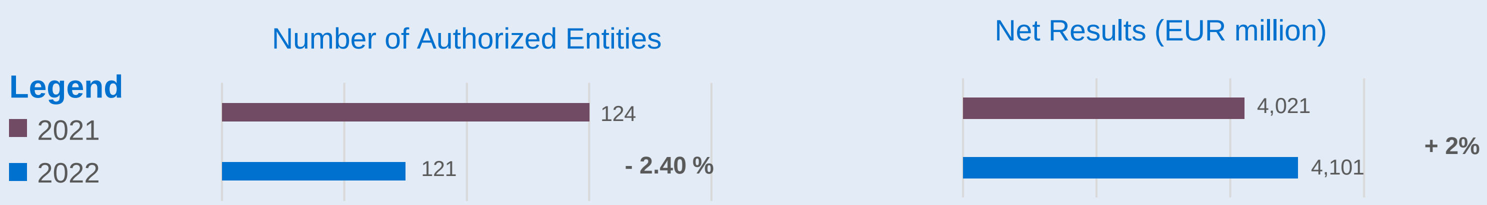
The number of inspections and findings regarding Corporate Governance highlighted the focus on these regulations. Further developments in this respect might be expected.

In 2022, administrative fines and prudential enforcement measures totaled EUR 5,880,931.8, marking a **36% increase** from the previous year's total of EUR 4,311,250.

This is just an illustrative overview. Please refer to the official CSSF Annual Report 2022.

Credit institutions



Banking Supervision Practice

Responsibilities for prudential supervision vary depending on the type of Credit Institution and primarily encompass Solvency, Liquidity, and Internal Governance Oversight. The CSSF scope of supervision covers the following areas:

- **Prudential Supervision** of Less Significant Institution (LSIs);
- Supervision of compliance with professional obligations related to **AML/CTF**;
- Supervision of regulations related to **Consumer Protection**, such as MiFID, laws governing mortgage and consumer credits; **Market Integrity**, including EMIR, SFTR, Benchmark Regulation (BMR), and covered bonds directive;
- **Supervision of Obligations** arising from **Sectoral laws** concerning UCIs, notably those related to the role of the depositary bank for UCIs, **European or national regulations**, such as PSD2 and Directive NIS1.

Finalization of Basel III

The primary objective of the Basel III agreement and its implementing act in Europe, the Capital Requirements Regulation (CRR) and Directive (CRD), is to enhance the robustness of the EU banking sector. This enhancement aims to enable the sector to effectively absorb economic shocks while also ensuring that banks remain capable of financing economic activity and fostering growth.

In the context of the finalization of Basel III, in the following years, **new rules and regulations** regarding the resilience of the banking sector might be introduced.

Prudential Supervision Priorities in 2022

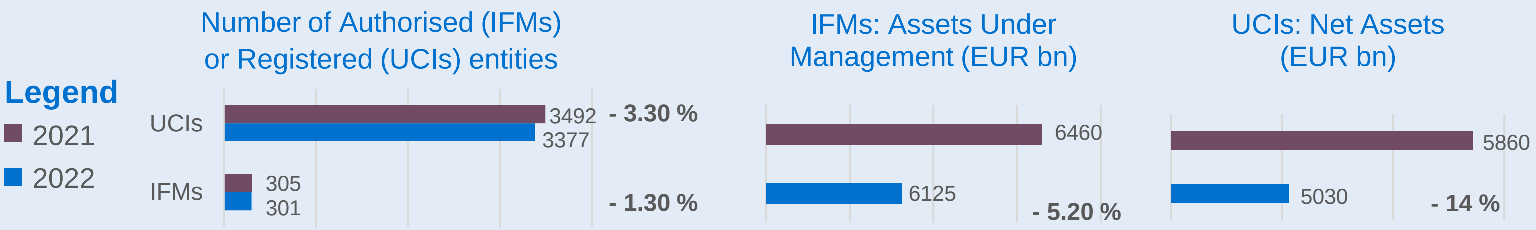
The CSSF priorities for prudential supervision in 2022 included the following:

- **Credit Risk** including Russian exposures and non-performing consumer loans outside Luxembourg;
- **Conduct Risk** including AML/CTF;
- **Profitability Risk**;
- **Operational Risk** including ML/TF risk, IT risk with cyber risks for instance, resilience risk (business continuity) and risks related to the use of sub-depositary institutions and outsourcing;
- **Interest Rate Risk**;
- **ICT Risks** following the accelerated digitalisation of banking services caused by the COVID-19 pandemic;
- **Climate Change and Environmental Risks** including an exercise aimed to outline the state of play of the level of the banking sector's alignment with the CSSF expectations set out in Circular CSSF 21/773;
- **Intra-Group Credit Risk** including the following the accelerated digitalisation of banking services caused by the COVID-19 pandemic.

NEW - CSSF Circular 22/828

CSSF Circular 22/828 updates CSSF Circular 20/750 by introducing a standard Payment Service Providers (PSPs) ICT Assessment form. This form helps PSPs evaluate IT and security risks related to payment services. It ensures consistency and comparability in PSPs' assessments by providing clear guidance on information expectations set by CSSF.

Investment Fund Managers and Undertakings for Collective Investment



Off-site Supervision

Off-site Supervision of UCIs

- As part of the evaluation of annual reports, management letters, and long form reports, the CSSF found it necessary to intervene with specific funds and/or their IFM;
- In the context of errors in NAV calculations, failure to observe the legal and regulatory limits of diversification, holding and borrowing has been a source of non-compliance with investment rules;
- 2022 was characterized by the impacts of the conflict in Ukraine. In this regard, the CSSF pinpointed several practices requiring enhancement, including, but not limited to, policies and procedures not adequately covering valuation practices in the event of a crisis.

Off-site Supervision of IFMs

***NEW* - CSSF Circular 21/789:** on December 2021, the CSSF released CSSF Circular 21/789, which simultaneously introduced a Self-assessment Questionnaire (SAQ) along with a Separate Report (SR) containing specific procedures that the CSSF requires the *réviseurs d'entreprises agréés* to carry out concerning the SAQ. The CSSF emphasized the importance of adhering to the specified deadlines.

In May 2022, the CSSF launched a thematic survey on the compliance function, targeting IFMs and AIFMs. The findings are set to be made public in 2023.

On-site Supervision

- The "UCI on-site inspections" division conducted comprehensive evaluations of the business models and governance of IFMs;
- The "Prudential supervision and risk management" unit conducts thematic on-site inspections on (i) risk management, (ii) procedures related to CSSF Circular 02/77, and (iii) money market UCIs.

Prospects for 2023 and 2024

Environmental, Social and Governance aspects

- Ensuring that the activities of IFMs and investment funds align with the various tiers of European Union legislation on sustainable finance will remain a significant focal point for the CSSF supervisory agenda in the year 2023;
- During 2023, the ESMA is set to initiate a Common Supervisory Action (CSA) focused on sustainability risks and disclosures. This initiative aims to assess the conformity of activities conducted by IFMs and investment funds with the provisions outlined in both SFDR Level 1 and Level 2 and to ascertain adherence to the guidelines detailed in the ESMA Supervisory Briefing titled "Sustainability Risks and Disclosures in the Area of Investment Management".

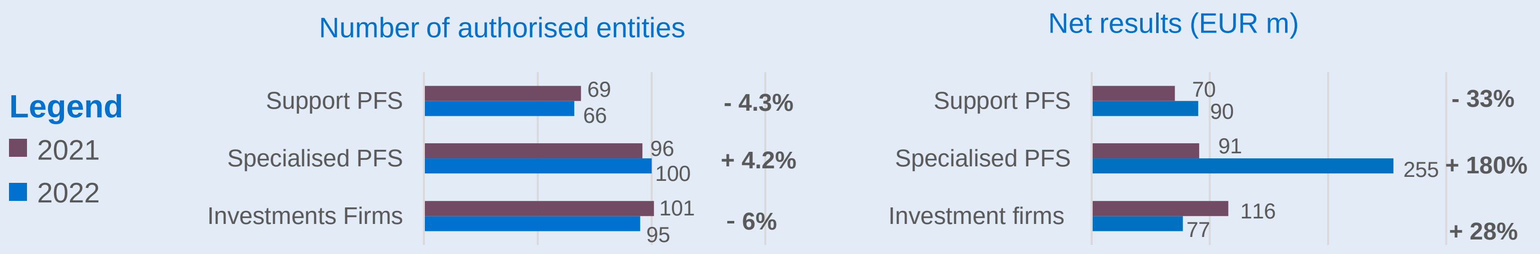
Revision of CSSF Circular 02/77

In 2022, the CSSF was actively engaged in the process of revising CSSF Circular 02/77, which pertains to safeguarding investors in cases of NAV calculation errors and rectifying the outcomes arising from deviations from the prescribed investment regulations for UCIs.

***NEW* - Circulars CSSF 21/788 and 21/790**

The CSSF intensified its efforts in reforming the long-form report in 2023. This includes implementing separate reports by *réviseurs d'entreprises agréés* for SIFs and SICARs starting from financial years closing on June 30, 2023. They will also work on improving the eDesk platform's functionalities.

Professionals of the Financial Sector (PFS)



CSSF Prudential Supervision

In the context of the prudential supervision of PFS, the CSSF verified compliance with the following requirements:

Capital base

The authorisation as investment firms / specialised PFSs / support PFSs necessitates the submission of proof validating the presence of a minimum capital foundation.

Introductory visits

Introductory visits are conducted at the physical locations of recently authorized investment firms / support PFSs, as well as, when relevant, at established investment firms / support PFSs that have acquired authorization for new activities in addition to their existing ones. The objective of these visits is to confirm the alignment of the planned business strategy with its actual execution and to check the proper implementation of systems and infrastructures.

I) Investment Firms

Compliance by investment firms with the quantitative standards

- **Capital ratios**: The implementation of the Investment Firms Directive (IFD) and Regulation (IFR) changed, among others, the capital ratio prerequisites for investment firms;
- **Concentration risk:** Since the IFD/IFR came into effect, investment firms have been under the concentration risk rules outlined in Part Four of the IFR;
- **Liquidity requirements:** Art. 43 Part V of the IFR requires for an adequate level of liquidity. Accordingly, investment firms are required to possess a minimum of one third of their fixed overheads requirement from the preceding financial year in the form of liquid assets.

Specific audits

As per Article 54(2) of the Law of 5 April 1993, on the financial sector, the CSSF holds the authority to ask an approved statutory auditor (*Réviseur D'entreprises Agréé*) to conduct a dedicated audit at a financial professional. This audit pertains to particular facets of the Financial Professional's Activities and Operations.

II) Specialised PFS

In the prudential oversight of PFS, the CSSF checked that specialized PFS adhere to both the quantitative and qualitative benchmarks, such as capital base and **compliance of the day-to-day management and corporate governance**. The CSSF focused on insufficient presence and/or effective involvement of one of the two managers in the day-to-day management of the entity or to the need for reorganization of the entity's administrative or management body composition.

III) Support PFS

Main prudential findings

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The CSSF underlined the importance of being compliant with the Law of 5 April 1993 on the financial sector with respect to the obligation to file a notification and obtain prior approval by the CSSF for certain types of changes during the life of the support PFS.

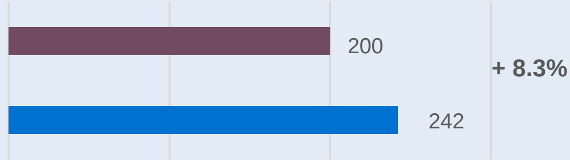
This is just an illustrative overview. Please refer to the official CSSF Annual Report 2022.

Supervision of Payment Institutions and Electronic Money Institutions

Legend
- 2021
- 2022

Number of Authorised Institutions

Volume of transaction (EUR bn)



Within the context of its prudential oversight, the CSSF checked adherence by Payment Institutions and Electronic Money Institutions to (i) Safeguarding requirements of funds of payment service users and electronic money holders; (ii) Requirements on central administration, on the sound and prudent management of these institutions, and (iii) Requirements relating to payment security.

The CSSF participated in EBA working groups for the PSD2, anticipating the European Commission's proposal for revised PSD3 in Q3. Additionally, plans for a Payment Services Regulation and a financial data access framework aim to empower customers, foster trust, and ensure consistency.

The CSSF particularly highlighted the discussions concerning:

- The internal control framework;
- The central administration and the presence of the management body;
- The internal control and governance structures established within the scope of outsourcing;
- The evolution and advancement of the institutions' human and technological resources within the context of expanding or developing their payment and electronic money services.

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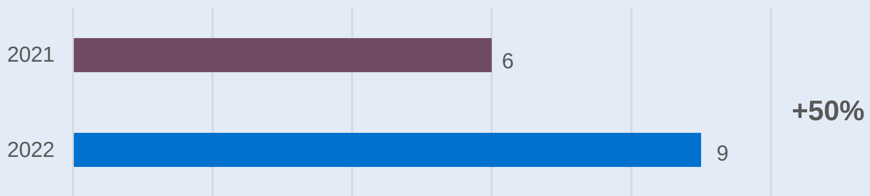
Relevant entities could expect new requirements on the governance regulatory framework in the next few years.

Virtual Asset Service Providers (VASP)

Number of Registered VASP

Legend
- 2021
- 2022



As of today, the CSSF responsibilities concerning VASPs registered in Luxembourg are limited to the domains of registration, supervision, and enforcement solely for AML/CFT objectives.

Like other professionals in the financial sector, an annual AML/CFT questionnaire was formulated in 2022 for VASPs. This questionnaire was subsequently dispatched to VASPs earlier in 2023. The data and insights garnered from this questionnaire will facilitate a risk assessment and standardized evaluation of these entities.

The key elements of the off-site supervision of the ML/TF risk include, among others, the analysis of the annual reports of the compliance function and, where applicable, the internal audit function.

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Relevant entities could expect new requirements on the governance regulatory framework in the next few years. In this context, please refer to the following page for more information on MiCA.

This is just an illustrative overview. Please refer to the official CSSF Annual Report 2022.

Financial Innovation - Challenges for the following years

Financial innovation is progressing rapidly: the CSSF will play an active role in contributing to and endorsing the European framework. The **CSSF Innovation Hub** is monitoring and supporting startups and supervised entities during their digital transition journey, providing guidance through comprehensive Q&As, white papers, and other informative publications.

Regulatory Updates

Digital Operational Resilience Act (DORA)

The proposed measures relate to ICT governance, ICT risk management, ICT-related incident reporting process, digital operational resilience testing, management of risks associated with ICT third-party service providers and information sharing.

- Entry into force: **16 January 2023**
- Date of application: **17 January 2025**

Network and Information Security Directive (NIS2)

NIS2 updates the existing legal framework (NIS1) expanding the scope to new sectors and aiming to establish a higher level of cybersecurity and resilience.

- Entry into force: **16 January 2023**
- Date of application: **18 October 2024**

DLT Pilot Regime

Regulation (EU) 2022/858 establishes a system allowing market infrastructures to bypass standard financial regulations and use DLT for securities trading and settlement.

- Date of publication: **2 June 2022**
- Date of application: **23 March 2023**

Markets in Crypto-Assets Reg. (MiCA)

The proposed measures sets uniform rules for crypto-assets not covered by existing financial laws. ESMA is releasing the MiCA consultation packages in sequence, the packages including the mandates are expected to be published in Q1 2024.

- Entry into force: **June 2023**
- Date of application: **12-to-18-month deadline**

Artificial Intelligence (AI) Act

The AI Act in its draft form represents the inaugural effort to establish a comprehensive regulation spanning the entire AI landscape. This proposed legal framework concentrates on the specific application of AI systems and the associated risks they pose.

- EU Parliament agreement: **14 June 2023**
- Currently **under review** by EU Member States

Data Act

The objective of the Data Act is to enhance the EU data economy by facilitating access to and utilization of industrial data, while also promoting the growth of a competitive and dependable European Cloud Market.

- EU Parliament agreement: **28 June 2023**
- Currently **under review** by EU institutions

eIDAS 2 Regulation

The revised eIDAS (Electronic Identification, Authentication, and Trust Services) regulation aims to include additional cross-border digital services, such as authentication and device identification and establishing a framework for the creation and use of digital identities.

- Currently **under review** by EU institutions

Financial Crime - Challenges for the following years

The primary components of **off-site supervision** regarding ML/TF risk encompass: (i) Reviewing the annual AML questionnaires; (ii) The annual reports from the compliance and internal audit functions; (iii) Examining the work conducted by the accredited audit firm as part of the comprehensive report, when applicable; and (iv) Conducting a critical evaluation of the ML/TF policies and procedures of these entities.

The CSSF identified the following deficiencies for the relevant entities:

- **Credit institutions and Central Securities Depositaries:** Severe deficiencies in relation the name screening process;
- **Investment firms:** Inadequate frequency of name screening against the lists of financial sanctions, too weak definition of the entity's risk appetite, material deficiencies detected in the AML/CFT procedures.

2022 Overview and Regulatory Updates

National AML/CFT Framework

- **The Law of 22 June 2022** in Luxembourg focused on the management and recovery of seized or forfeited assets and established two national offices: (i) **Asset Management Office (BGA)** (ii) **Asset Recovery Office (BRA)**. Alongside the Law of 28 October 2022, the Law of 22 June 2022 amended the **Law of 25 March 2020** which established a central electronic data retrieval system for IBAN accounts and safe-deposits boxes.
- **The Law of 29 July 2022** introduced minor amendments to the laws related to ML/TF. These changes include: (i) Clarifying professionals' obligations, such as always identifying beneficial owners; and (ii) Mandating consultation of the Beneficial Owner Register (RBE) and of the register on fiducies and trusts throughout the entire business relationship;
- The **Grand-ducal Regulation of 25 October 2022** abolished the provision regarding numbered accounts within the Grand-ducal Regulation of 1 February 2010 on AML/CFT;
- The CSSF emphasized the need for professionals to register with the **RBE**;
- Luxembourg completed its first **Vertical Risk Assessment** (VRA) on terrorist financing and on legal persons and legal arrangements in 2022, building on the National Risk Assessment of Money Laundering and Terrorism Financing (NRA) from 2018 and 2020.

Financial Action Task Force (FAFT)

The year 2022 witnessed significant developments from the FATF, with a focus on:

- **Digital Transformation**: Addressing digital transformation challenges;
- **Asset Recovery Strategies**: Strategies to enhance effective asset recovery actions and outcomes;
- **Transparency and Beneficial Ownership**: Emphasizing transparency and beneficial ownership.

In 2022, the FATF conducted mutual evaluations of Germany, France, and the Netherlands.

The Luxembourg AML/CFT framework underwent evaluation, including an on-site visit, as part of the FATF Mutual Evaluation process. This evaluation involved close collaboration between the CSSF, ministries, and other stakeholders, including private sector representatives. The final report on Luxembourg evaluation is expected to be adopted in June 2023 and published in September 2023.

This is just an illustrative overview. Please refer to the official CSSF Annual Report 2022.

Sustainable Finance - Challenges for the next years

As per Annual Report, in 2023, the CSSF will prioritize the **inclusion of sustainability requirements** across:

- Implementing a risk-based supervisory strategy founded on reliable data;
- Promoting awareness and enhancing financial education;
- Engaging in global discussions to standardize sustainable finance criteria.

Regulatory Updates

Transparency requirements and taxonomy

Transparency requirements and the development of a European taxonomy to categorise activities considered sustainable were introduced with the SFDR and the Taxonomy Regulation. The regulations entered into force with a first and a second RTS in Q1 2023. Regarding the European taxonomy, non-financial firms must disclose alignment from 3 January 2023, while financial institutions will start in 2024.

MiFID Rules

Starting from 2 August 2022, investment advisors and portfolio managers have been mandated to gather specific information regarding their clients' sustainable investment preferences.
"Guidelines on certain aspects of the MiFID II suitability requirements" by ESMA will be published on 3 October 2023. Furthermore, 2023 will see the implementation of ESMA's guidelines on product governance requirements.

CSSF: Supervisory Priorities

- A review of compliance with **CSSF Circular 21/773** on the management of climate-related and environmental risks for the Less Significant Institutions (LSI) and third countries branches;
- The targeted review of financial and non-financial disclosures by issuers for which significant climate-related risks have been identified;
- The inclusion of sustainability-related aspects in **on-site inspections**.

Corporate Governance and Risk Management arrangements

To enhance the financial sector's resilience to climate-related risks, incorporating sustainability factors into conventional risk management and corporate governance tools has become a key focus of the evolving regulatory framework, drawing significant attention from international institutions. In December 2022, the Implementing Technical Standards (ITS) were released, outlining specific formats, templates, and instructions aimed at standardizing the disclosure of ESG risk exposures for credit institutions.

New financial and extra-financial standards

On 28 November 2022, the **Corporate Sustainability Reporting Directive** (CSRD) was adopted, marking the completion of the SFDR and Taxonomy Regulation. Its purpose is to facilitate the development of a comprehensive and trustworthy database of information on sustainable development within the financial markets.

In 2023, the **European Taxonomy Sustainability Reporting Standards** (ESRS) are scheduled to be adopted. These standards aim to establish uniform accounting guidelines for implementing the directive.

Main new Circulars and Updates

New CSSF Circular 22/811 on UCI administrators

- In May 2022, the CSSF released Circular 22/811, which serves the purpose of delineating principles of sound governance and internal organization applicable to administrators of UCIs;
- This Circular 22/811 applies to UCI administrators overseeing both regulated and non-regulated entities, regardless of whether they are based in Luxembourg or elsewhere. Notably, Circular 22/811 entirely supersedes Chapter D of IML 91/75 wherein UCIs were previously limited to UCITS and Part II funds.

New CSSF Circulars on long form report

- For credit institutions, CSSF Circular 22/821 introduces SAQs, Attestation d'Usage Pratique (AUP) reports, safeguarding reports, and separate AML/CTF Report;
- For IFMs and UCIs, in December 2021 the CSSF published Circulars CSSF 21/788, 21/789 and 21/790, introducing a new CSSF AML/CFT external report to be prepared by the approved statutory auditor, new requirements and regulatory framework for all authorised IFMs, SIAGs and FIAAGs and the regulated UCIs.

New CSSF Circular 22/806 on outsourcing agreements

- The publication of CSSF Circular 22/806 consolidated CSSF expectations on various outsourcing, including IT outsourcing, transitioning from prior authorization to prior notification for most critical or important outsourcing arrangements. New templates and internal procedures were introduced in 2022 and early 2023;
- As per Annual Report, in 2023, the CSSF plans to further enhance its strategy by introducing additional tools and means to support it and by providing feedback to supervised entities.

Guidelines for Remuneration

- The following guidelines are applicable since 31 December 2022:
    - The revised guidelines on the benchmarking exercises on remuneration practices, the gender pay gap and approved higher ratios under Directive (EU) 2013/36;
    - The guidelines on the benchmarking exercises on remuneration practices and the gender pay gap under Directive (EU) 2019/2034;
    - The revised guidelines on the data collection exercises regarding high earners under Directive (EU) 2013/36 and under Directive (EU) 2019/2034.

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Publication Timeline

This newsletter combines content from the following 6 publications:

1. **On-site Inspections** — *Published 13/09/2023*
2. **Credit Institutions** — *Published 20/09/2023*
3. **IFMs and UCIs** — *Published 27/09/2023*
4. **PFS** — *Published 04/10/2023*
5. **Payment, Electronic Money Institutions and VASPs** — *Published 11/10/2023*
6. **Challenges for the next years** — *Published 18/10/2023*

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As a truly integrated partnership and firm, we operate seamlessly across borders. Our commitment to clients is absolute – we furnish you with a seasoned senior team well-versed in the intricacies of the field. You will benefit of senior leaders ‘on the ground’, poised to deliver not just insights but transformative, value-enhancing recommendations.

Tailored, pragmatic, joined-up approach

In these challenging times, Mazars is committed to support you navigating the regulatory challenges. As a service provider, our work is practical, and our conclusions and action plans will be pragmatic and fine-tuned to our clients’ needs. We will tailor our approach to ensure our work meets each and every client's specific requirements.

Personal and personable approach

We strongly believe that this sets us apart from the competition. Our commitment is to invest time and effort in truly understanding the unique environment of each entity we engage with. We approach every interaction with a willingness to listen, to empathize, and to adapt.

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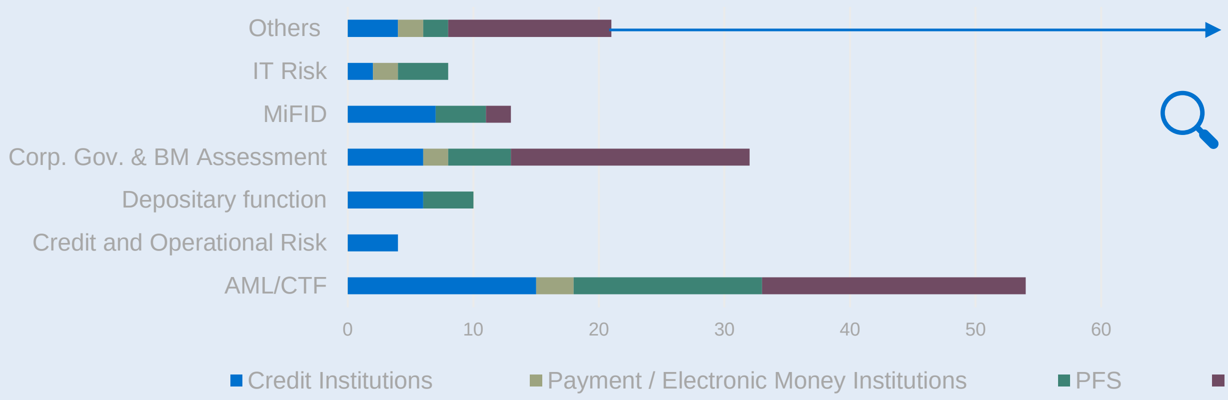
Appendix I - On-site Inspections – Key Findings

LEGEND:

Credit Institutions | PFS | IFMs and UCIs | Payment Institutions

This section provides an overview of key topics, and when disclosed, significant weaknesses and deficiencies identified by the CSSF during its on-site inspections.

Breakdown of the on-site inspections in 2022 by topic



"Others" including but not limited to:
- EMIR;
- Sustainability / ESG;
- Valuation;
- "Ad hoc" covering specific situations.

Credit risk

Verifying the soundness and prudence of credit risk

- Lack of independent credit analysis by the risk control function covering the creditworthiness of the borrower;
- Significant delays and a lack of formalization were identified about credit monitoring;
- Methods used to calculate the expected Credit Loss was simplistic and lacked economic or statistical justification;
- Erroneous implementation of the regulatory framework on forborne exposures;
- Incorrect calculation of the amount of Risk Weighted Assets.

Operational risk

Verifying how operational risk is identified, controlled and managed

- Absence of a harmonized definition of operational risk;
- Absence of systematic quantification of operational risk based on concrete elements.

ICAAP (Pillar II)

Verifying that the credit institutions have established a suitable procedure for maintaining a sufficient capital level

- As of today, no results have been disclosed.

Pillar I

Verifying the correct application of the requirements for the computing of own funds

- As of today, no results have been disclosed.

Depositary function

Verifying compliance with laws and regulations

- Absence of accurate and complete formalisation of ownership verification;
- Lack of risk-based approach concerning the monitoring of activities directly managed by the UCIs' leadership, applying to both the due diligence process of the different parties involved in the UCI management and the permanent control processes;
- Deficiencies in the internal control system of specialized PFS acting as depositaries, along with issues related to the allocation of their technical and human resources for task execution and documentation.

UCI Administrations

Ensuring proper implementation of CSSF Circular 22/811 on the authorization and organisation of entities acting as UCI administrators

- As of today, no results have been disclosed.

Business Model & profitability assessment

Checking how institutions' business and risk strategies are linked while pursuing their financial interests

- Absence of analyses of reliable performance factors;
- Inaccurate pricing methodology and profitability analyses of financial products;
- Lack of structures guidelines and systematic in-depth analyses with regard to financial planning.

This is just an illustrative overview. Please refer to the official CSSF Annual Report 2022.

Appendix I - On-site Inspections – Key Findings II/II

Corporate Governance

Evaluating the governance arrangements of some supervised entities pursuant to the regulatory and legal requirements.

The number of inspections and findings regarding Corporate Governance highlighted the focus on these regulations. Further developments in this respect might be expected.

- **Internal Policies and Procedures:** Lack of formal approval and / or weaknesses in the implementation;
- **Outsourcing:** Shortfalls in risks' identification and materiality level's assessment;
- **Board of Directors and Specialized Committees:** Lack of: (i) Physical or video meetings; (ii) Involvement of the board members with the internal control assessment;
- **Authorised management and management committees:** Shortcomings related to authorized management functioning and responsibilities: (i) Deficiencies in the supervision of the implementation of group policies within subsidiaries; (ii) Formalisation / communication of management decisions; (iii) Monitoring of the proper implementation of the recommendations issued by the control functions;
- **Compliance function:** (i) Weaknesses concerning the completeness and updating of the compliance programs; (ii) Implementation of controls that these documents define; (iii) Lack of specific budget, and sufficient resources allowing it to achieve its tasks;
- **Risk control function:** (i) Shortcomings in the definition and comprehensiveness of the limits system and risk appetite indicators; (ii) Absence of a risk management strategy;
- **Third line of defense:** (i) Deficiencies about the establishment of an audit plan; (ii) Weaknesses regarding the quality of the internal audit' function work, or the independence and objectivity of some internal auditors; (iii) The internal audit plans do not incorporate a risk-based approach;
- Deficiencies identified in the contractual framework and quality of the supervision of the outsourcing of some activities related to **EMIR**.

MiFID

Assess whether the implemented MiFID framework is compliant with the legal and regulatory requirements

- Major weaknesses identified on the **following themes**: (i) Suitability assessment of investment products or services; (ii) Product governance; (iii) Identification and management of conflicts of interest; (iv) Provision of information and reports to clients;
- Additionally, specific shortcomings were identified with regard to the ***ex-post disclosure of costs and charges***, namely: (i) Some costs and charges elements were missing; (ii) Errors were noted in classifying different types of costs and charges; (iii) Incomplete cost impact illustration; (iv) Lack of client notifications when ex-post reports are made available electronically.

IT Risk

Assessing whether the implemented IT framework is compliant with the legal and regulatory requirements

- **IT Security:** Deficiencies in managing outdated IT systems and in configurations for protection against cyber threats;
- **IT Asset Management:** Weaknesses in the control and oversight of management of IT changes and incidents;
- **IT Risk Management:** Lack of adequate risk coverage by the second line of defense;
- **Internal Audit:** Incomplete coverage of IT activities, low-quality audit work, competence issues assessing IT risks, ineffective monitoring of corrective actions after audit findings;
- **Outsourcing deficiencies**: Weaknesses related to the contractual aspects and operational follow-up.

On-site AML/CTF supervision

Assessing whether the implemented AML/CTF framework is compliant with the legal and regulatory requirements

- **Name Matching Tool Efficiency:** Absence of controls for efficient name matching tools, leading to delays in official list updates and oversight;
- **Customer Review Delays:** Delayed periodic reviews of high-risk customer relationships;
- **Incomplete Risk Assessment:** Failure to consider all risk factors when assessing ML/TF risk, resulting in inappropriate due diligence measures;
- **Ongoing Transaction Monitoring Deficiencies:** (i) Scenarios employed did not effectively address risky situations (ii) Insufficient handling of alerts;
- **Customer File Information:** Insufficient information in customer files, especially regarding the source of funds and origin of wealth;
- **Reporting Failures:** Failures to promptly report ML/TF suspicions and associated predicate offenses to the Financial Intelligence Unit (FIU).

In 2022, administrative fines and prudential enforcement measures totaled EUR 5,880,931.8, marking a **36% increase** from the previous year's total of EUR 4,311,250.